



China Zenith Chemical Group Limited

中國天化工集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 362)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

The board (“Board”) of directors (“Directors”) of China Zenith Chemical Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements (“Interim Financial Statements”) of the Company and its subsidiaries (collectively the “Group”) for the six months ended 31 December 2007 (“Period”). The results had been reviewed by the Company’s audit committee (“Audit Committee”).

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited six months ended 31 December 2007 HK\$'000	2006 HK\$'000 (Restated)
	<i>Note</i>		
Continuing operations			
TURNOVER	3	851,252	404,976
Cost of sales		<u>(598,864)</u>	<u>(274,415)</u>
Gross profit		252,388	130,561
Other income		15,076	4,464
Selling and distribution costs		(18,116)	(6,924)
Administrative expenses		(76,534)	(18,927)
Other operating expenses		<u>(3,651)</u>	<u>(899)</u>
PROFIT FROM OPERATIONS		169,163	108,275
Finance costs		<u>(497)</u>	<u>(852)</u>
PROFIT BEFORE TAX		168,666	107,423
Income tax credit	5	<u>22,408</u>	<u>–</u>
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		191,074	107,423
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations		<u>–</u>	<u>(99,578)</u>
PROFIT FOR THE PERIOD	6	<u>191,074</u>	<u>7,845</u>
ATTRIBUTABLE TO:			
Equity holders of the Company		156,784	2,006
Minority interests		<u>34,290</u>	<u>5,839</u>
		<u>191,074</u>	<u>7,845</u>
EARNINGS PER SHARE	7		
From continuing and discontinued operations			
– Basic		<u>HK4.4 cents</u>	<u>HK0.1 cent</u>
– Diluted		<u>HK4.3 cents</u>	<u>HK0.1 cent</u>
From continuing operations			
– Basic		<u>HK4.4 cents</u>	<u>HK4.4 cents</u>
– Diluted		<u>HK4.3 cents</u>	<u>HK4.4 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31 December 2007 HK\$'000	Audited 30 June 2007 HK\$'000 (Restated)
	<i>Note</i>		
Non-current assets			
Fixed assets		1,112,448	1,065,800
Land use rights		291,350	150,807
Goodwill	10	100,662	74,612
Other intangible assets		115,198	112,840
Deposit paid for the acquisition of subsidiaries		–	50,000
Deferred tax assets		3,108	2,994
		<u>1,622,766</u>	<u>1,457,053</u>
Current assets			
Inventories		123,437	106,080
Trade receivables	11	218,263	142,851
Prepayments, deposits and other receivables		273,622	263,915
Financial assets at fair value through profit and loss		33,660	–
Bank and cash balances		221,933	170,047
		<u>870,915</u>	<u>682,893</u>
TOTAL ASSETS		<u>2,493,681</u>	<u>2,139,946</u>
EQUITY			
Capital and reserves			
Issued capital		36,351	33,778
Retained profits		693,580	536,796
Other reserves		1,105,868	932,828
		<u>1,835,799</u>	<u>1,503,402</u>
Equity attributable to equity holders of the Company		<u>1,835,799</u>	<u>1,503,402</u>
Minority interests		<u>281,446</u>	<u>240,777</u>
Total equity		<u>2,117,245</u>	<u>1,744,179</u>

		Unaudited 31 December 2007 HK\$'000	Audited 30 June 2007 HK\$'000 (Restated)
	<i>Note</i>		
Non-current liabilities			
Deferred tax liabilities		<u>151,968</u>	<u>157,263</u>
Current liabilities			
Trade payables	12	45,642	66,827
Other payables and accruals		146,934	141,098
Due to a minority shareholder of a subsidiary		–	4,108
Bank loan		26,652	25,675
Current tax liabilities		<u>5,240</u>	<u>796</u>
		<u>224,468</u>	<u>238,504</u>
Total liabilities		<u>376,436</u>	<u>395,767</u>
Total equity and liabilities		<u>2,493,681</u>	<u>2,139,946</u>
Net current assets		<u>646,447</u>	<u>444,389</u>
Total assets less current liabilities		<u>2,269,213</u>	<u>1,901,442</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Accounting Policies

This Interim Financial Statements was prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” which is one of the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction in with the 2007 annual financial statements of the Group.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the 2007 annual financial statements of the Group.

2. Changes in Accounting Policies

In the Period, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2007. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); 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 periods.

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 Period.

4. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

(i) Business segments

	Continuing operations						Discontinued operations				Total
	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	
Six months 31 December 2007											
Segment revenue	445,498	223,509	50,703	151,219	(19,677)	851,252	-	-	-	-	851,252
Segment results	130,435	71,139	4,953	1,795	(773)	207,549	-	-	-	-	207,549
Other income						8,741				-	8,741
Unallocated expenses						(47,127)				-	(47,127)
Consolidated profit from operations						169,163				-	169,163
Finance costs						(497)				-	(497)
Consolidated profit before tax						168,666				-	168,666
Income tax credit						22,408				-	22,408
Consolidated profit for the period						191,074				-	191,074

	Continuing operations					Discontinued operations					Total
	Polyvinyl- chloride	Vinyl acetate	Heat and power	Glucose and starch	Elimin- ations	Sub-total	Anti- corrosive			Sub-total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		Lubricants	coatings	Additives		
Six months 31 December 2006											
Segment revenue	245,190	141,231	–	18,555	–	404,976	60,944	39,831	–	100,775	505,751
Segment results	66,989	46,418	–	(2,753)	–	110,654	(62,296)	(40,715)	–	(103,011)	7,643
Other income						4,464				3,633	8,097
Unallocated expenses						(6,843)				(200)	(7,043)
Consolidated profit/(loss) from operations						108,275				(99,578)	8,697
Finance costs						(852)				–	(852)
Consolidated profit/(loss) before tax						107,423				(99,578)	7,845
Income tax expense						–				–	–
Consolidated profit/(loss) for the period						107,423				(99,578)	7,845

Unallocated expenses represent corporate expenses.

(ii) *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" or "China") and accordingly, no further analysis of the Group's geographical segments is disclosed.

5. Income tax credit

	Six months ended	
	31 December	
	2007	2006
	HK\$'000	HK\$'000
Current Period provision:		
Elsewhere in the PRC	7,014	–
Deferred tax	(29,422)	–
	(22,408)	–

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 Period (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.

6. Profit for the Period

The Group's profit for the Period is stated at after charging/(crediting):

	Continuing operations		Discontinued operations		Total	
	Six months ended 31 December					
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	14,020	2,554	–	2,580	14,020	5,134
Amortisation of other intangible assets	2,775	600	–	–	2,775	600
Interest income	(2,801)	(2,006)	–	(1,299)	(2,801)	(3,305)
Allowance for receivables	10,000	–	–	18,978	10,000	18,978
Allowance for inventories	–	–	–	2,481	–	2,481
Write-off of fixed assets	2,873	–	–	47,624	2,873	47,624
Write-off of land use rights	–	–	–	13,420	–	13,420
Employee share option benefits	26,934	–	–	–	26,934	–
Gain on disposal of financial assets at fair value through profit and loss	(5,927)	–	–	–	(5,927)	–
Fair value loss on financial assets at fair value through profit and loss	9,939	–	–	–	9,939	–

7. 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 Period attributable to equity holders of the Company of approximately HK\$156,784,000 (2006: HK\$2,006,000) and the weighted average number of ordinary shares of 3,561,337,375 (2006: 2,101,540,000) in issue during the Period.

Because there is no discontinued operation during the Period, the basic and diluted earnings per share from continuing and discontinued operations are the same as that from continuing operations.

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 Period attributable to equity holders of the Company of approximately HK\$156,784,000 (2006: HK\$2,006,000) and the weighted average number of ordinary shares of 3,561,337,375 (2006: 2,101,540,000) in issue during the Period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 65,419,010 (2006: 1,231,766) assumed to have been issued at no consideration on the deemed exercise of the share options and warrants (2006: share options) outstanding at the balance sheet date.

(b) *Earnings per share from continuing operations*

The calculation of basic and diluted earnings per share from continuing operations for the six months ended 31 December 2006 attributable to equity holders of the Company is based on the profit for the six months ended 31 December 2006 from continuing operations attributable to equity holders of the Company of approximately HK\$91,450,000 (restated) and the denominator used is the same as that detailed above for basic and diluted earnings per share from continuing and discontinued operations respectively.

(c) *Loss per share from discontinued operations*

Basic loss per share from the discontinued operations for the six months ended 31 December 2006 is approximately HK4.3 cents, and diluted loss per share from the discontinued operations is approximately HK4.3 cents, based on the loss for the six months ended 31 December 2006 from discontinued operations attributable to the equity holders of the Company of approximately HK\$89,444,000 (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.

8. Capital Expenditure

During the Period, the additions to fixed assets including both the prepayment for construction in progress and the construction in progress in the PRC were approximately HK\$136.2 million (2006: HK\$147.2 million).

9. Business Combination

On 17 August 2007, the Group completed the acquisition of the entire issued share capital of Daytech Group Limited (“Daytech Group”), an investment holding company incorporated in the British Virgin Islands. Daytech Group is the legal and beneficial owner of the entire equity interest in Mudanjiang Daytech Chemical Ltd. (“Mudanjiang Daytech”), a wholly foreign owned enterprise established by Daytech Group in the PRC. Mudanjiang Daytech is not currently engaged in any business activities or operations. It is holding a single piece of industrial land with a site area of approximately 400,000 square metres which located at Mudanjiang, Heilongjiang Province, the PRC.

The identifiable assets and liabilities of Daytech Group acquired as at the date of acquisition are set out as follows:

	Fair value <i>HK\$'000</i>	Daytech Group's carrying amount <i>HK\$'000</i>
Fixed assets	848	848
Land use rights	141,221	39,168
Bank and cash balances	10,438	10,438
Deferred tax liabilities	(25,513)	–
Other payables	<u>(44)</u>	<u>(44)</u>
	126,950	<u>50,410</u>
Goodwill	<u>26,050</u>	
Satisfied by:		
Cash	<u>153,000</u>	

The goodwill arising on the acquisition of Daytech Group is attributable to anticipated profitability of the expansion of the Group's existing businesses using the piece of land held by Mudanjiang Daytech.

The acquired business did not contribute revenues and contributed loss before allocation of approximately HK\$1,707,000 for the period between date of acquisition and the balance sheet date. If the acquisition had occurred on 1 July 2007, the Group's revenue would have been approximately HK\$851,252,000 and profit before allocations would have been HK\$189,948,000.

10. Goodwill

During the year ended 30 June 2007, the Group acquired certain subsidiaries of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the Period, the Group made certain fair value adjustments to the carrying amounts of the identifiable assets and liabilities of the subsidiaries acquired as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable assets, liabilities and contingent liabilities were made as if initial accounting had been incorporated from acquisition date.

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:

	31 December	30 June
	2007	2007
	HK\$'000	HK\$'000
Within 30 days	148,014	59,066
31 to 60 days	25,293	48,259
61 to 90 days	13,945	19,602
91 to 120 days	29,555	5,576
121 to 365 days	1,456	10,348
	218,263	142,851

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:

	31 December	30 June
	2007	2007
	HK\$'000	HK\$'000
Within 30 days	19,844	34,649
31 to 60 days	12,634	11,266
61 to 90 days	229	5,438
91 to 120 days	1,531	509
121 to 365 days	4,884	10,535
Over 1 year	6,520	4,430
	45,642	66,827

13. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation of HKFRS 3 and HKFRS 5.

INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

During the Period, the Group faced a favorable operating environment. With crude oil prices continuing to stay at historical peak level, our coal related production chemical raw materials have competitive cost advantage over petrochemical based chemical raw materials.

During the Period, the turnover of the Group reached record level of approximately HK\$851.3 million, representing a significant increase of 110.2% over the corresponding period of the previous year.

During the Period, the Group recorded net profit attributable to shareholders of approximately HK\$156.8 million. For the period ended 31 December 2006, excluding the loss contributed from the discontinued petroleum refined products business attributable to shareholders of approximately HK\$89.4 million, the adjusted net profit attributable to shareholders amounted to approximately HK\$91.4 million.

During the Period, excluding the loss contributed from the discontinued petroleum refined products business, the Group attained a significant growth of net profit attributable to shareholders of 71.6% over the corresponding period of the previous year.

Disregarding the effect of the share option benefit expenses of approximately HK\$26.9 million, and fair value loss on financial assets at fair value through profit and loss of approximately HK\$9.9 million, the Group's administrative expenses for the period under review increased by approximately HK\$20.8 million and was in line with the increase in turnover. This can be shown by the ratio of administrative expenses to turnover remains at 4.7% for both accounting period under review.

Business Review

Coal related chemical products division

The growth of profit of the Group was mainly the result of the competitive advantage of using coal related production methodology other than those using the petroleum related production methodology during high crude oil price period. Moreover, the Company has made further efforts in cost saving and consumption reduction by adopting various measures, including strengthening energy saving management and reduction in emission of unreacted gas. Various production processes have been altered and streamlined. As a result, the consumption rate of raw materials for production such as industrial salt, acetic acid and calcium carbide are reduced.

Polyvinyl – chloride (“PVC”)

During the Period, the PVC segment recorded a turnover of approximately HK\$445.5 million representing a significant increase of 81.7% over the corresponding period of the previous year. Operating profit of approximately HK\$130.4 million represented a significant increase of 94.7% over the corresponding period of the previous year. The growth in turnover is mainly due to the increase in production quantities through proper stock management, striking balance between bulk purchase of raw materials for better price and keeping minimum safety stock for production. The increase in operating profit is mainly due to the both revised product mix, after the Group starting to manufacture emulsion PVC (“EPVC”) in September 2007 and suitable economy of scale after the production line was streamlined.

Vinyl acetate

During the Period, turnover was approximately HK\$223.5 million, representing a significant increase of 58.3% over the corresponding period of the previous year. Operating profit was approximately HK\$71.1 million, representing a significant increase of 53.3% over the corresponding period of the previous year. The increase in turnover and operating profit was mainly the result of the increase in sales volume and the reduced average cost of production after the completion of the second phase expansion in production capacities in July 2007.

On 17 August 2007, the Group completed the acquisition of Daytech Group Limited. For details, please refer to note 9 of the Notes to Condensed Consolidated Financial Statements.

Bio-chemical products division

During the Period, the glucose and starch segment recorded a turnover of approximately HK\$151.2 million, representing a significant increase of 443.3% (based on monthly proportional adjustments: 4 months in last year and six months in this year) over the corresponding period of the previous year. An operating profit of approximately HK\$1.8 million was attained during the Period while there was an operating loss of approximately HK\$2.8 million in the corresponding period of the previous year. The increase in turnover was mainly the result of the increase in sales volume as the bio-chemical manufacturing arm was being operated throughout the accounting period under review.

Heat and Power division

During the Period, the heat and power segment recorded a turnover of approximately HK\$50.7 million and an operating profit of approximately HK\$5.0 million (nil in the corresponding period of the previous year since the acquisition of power and steam business was completed on 8 January 2007). The power and steam business enables the Group to secure a supply of the key utility or steam to the production processes. Therefore, the manufacturing processes for the chemical products of the Group were running smoothly and not affected by shortage of steam supply. Thus, the Group had lower its cost of production and hence maintained its competitive advantage in the region.

Capital structure, liquidity and financial resources

Capital structure

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

Equity funding

During the Period, the Company raised funds from 82,400,000 new shares through the exercise of share options by option holders; and 174,848,250 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, the whole amount had been utilised by the Group. Among which, approximately HK\$200 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.

During the year ended 30 June 2007, the net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK\$35 million. For the Period, the net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK\$48 million. As at the date of this announcement, approximately HK\$51 million was utilised as working capital of the Group. At the date of this announcement, approximately HK\$32 million for working capital was not utilised by the Group.

During the year ended 30 June 2007, the net proceeds raised from the exercise of bonus warrants announced on 22 March 2007 was approximately HK\$66 million. For the Period, the net proceeds raised from the exercise of bonus warrants announced on 22 March 2007 was approximately HK\$75 million. As at the date of this announcement, the whole amount of approximately HK\$141 million for working capital was not yet utilised by the Group.

Liquidity and Financial Ratios

As at 31 December 2007, the Group had total assets of approximately HK\$2,493.7 million (30 June 2007: HK\$2,140.0 million (restated)) which were financed by current liabilities of approximately HK\$224.5 million (30 June 2007: HK\$238.5 million), non-current liabilities of approximately HK\$152.0 million (30 June 2007: HK\$157.3 million (restated)), minority interests of approximately HK\$281.4 million (30 June 2007: HK\$240.8 million) and shareholders' equity of approximately HK\$1,835.8 million (30 June 2007: HK\$1,503.4 million).

As at 31 December 2007, the current assets of the Group amounted to approximately HK\$870.9 million (30 June 2007: HK\$682.9 million) comprising inventories of approximately HK\$123.4 million (30 June 2007: HK\$106.1 million), trade receivables of approximately HK\$218.3 million (30 June 2007: HK\$142.9 million), prepayments, deposits and other receivables of approximately HK\$273.6 million (30 June 2007: HK\$263.9 million), financial assets at fair value through profit and loss of approximately HK\$33.7 million (30 June 2007: Nil), cash and cash equivalents of approximately HK\$221.9 million (30 June 2007: HK\$170.0 million).

As at 31 December 2007, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets – inventories)/(current liabilities)), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/shareholders' equity) of the Group were approximately 3.9 (30 June 2007: 2.9), 3.3 (30 June 2007: 2.4), 15.1% (30 June 2007: 18.5% (restated)) and 20.5% (30 June 2007: 26.3% (restated)), respectively.

The financial health of the Group attains at good level throughout the Period as indicated by the above figures.

As at 31 December 2007, the Company did not have any significant investments except the financial assets at fair value through profit and loss of approximately HK\$33.7 million, the Company had recorded a fair value loss on financial assets at fair value through profit and loss of approximately HK\$9.9 million for the Period.

As at 31 December 2007, bank loan of approximately HK\$26.7 million is secured by charges over the Group's certain fixed assets and land use rights.

As at 31 December 2007, the Group did not have any significant contingent liabilities.

Foreign Exchange Exposure

Although most of the operations of the Company 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 the 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 Period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2007.

Number and Remuneration of Employees

As at 31 December 2007, the Group had 2,160 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.

For the Period, there were 337.0 million share options granted to senior management of the PRC subsidiaries of the Company, 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 approximately HK\$48.0 million was received. As 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.

Subsequent to the balance sheet date, there were 72.0 million share options granted to senior management of the PRC subsidiaries of the Company. These share options has exercisable period up to 21 February 2011 at exercise price of HK\$0.375 per share. As at the date of this announcement, no share options are exercised.

Prospects

Coal related products division

With crude oil prices continuing to stay at historical heights, our coal related production chemical raw materials will maintain its competitive cost advantage over petrochemical based chemical raw materials produced by our rivals.

The PRC economy will inevitably have a vibrant growth in year 2008 and in turn strong growth of domestic demand in construction materials and industrial chemical materials or the downstream products of our customers.

In addition, the Group's efforts over the years in enhancing the quality of the coal related chemical businesses and raising the overall competitiveness, should lay the foundation for our sustained and healthy growth.

Nevertheless, the Group anticipates that the operating environment will be more challenging in the second half of the financial year. The market purchase price of coal is expected to rise. The cost of production of our coal related chemical products will increase inevitably.

PVC

Increase in cost of calcium carbide and electricity

The Group foresees that the outsourced price of calcium carbide and electricity is expected to rise in line with the increase in coal price. The cost of production of our PVC products will grow unavoidably.

Potential abolishment of preferential electricity tariff

Moreover, according to the circular, NDRC Price 2007 No. 2655, issued by the National Development and Reform Commission in 2007, the PRC government will abolish all preferential electricity tariff given to high energy consumption manufacturing enterprises, which are classified as restricted and eliminated category. The Group is now enjoying a preferential tariff on electricity consumed during the electrolysis process in the manufacturing of PVC. The Group has not yet received any notice in respect of change or abolishment of preferential tariff. If such change occurs, the cost of production of PVC may also increase.

Stringent control over pollution by government

In addition, the PRC government has implemented more stringent control to prevent further pollution. Over past years, the Group has suitably invested on environmental protection aspect. To comply with the tightened statutory environmental protection standard, the Group expects to spend more and put more effort in further improvement of the production facilities.

Vertical Integration to the production of calcium carbide

Faced with continued challenges and in view of the underlying strength of the Group's coal related chemical businesses, the Group is confident that the vertical integration to the production of calcium carbide will be the best solution for the challenges.

The production of both vinyl acetate and PVC consumes large amount of calcium carbide as major raw material. The Group has captured the market opportunity to purchase approximately 400,000 square metres industrial land and started constructing its own calcium carbide production facilities for internal consumption. It is planned that the first phase of construction will be finished in late 2008. This will secure the key raw material and lower the cost of production for the coal related chemical products division.

Diversification of product mix to improve profit margin

The Group has also planned to undertake in-house research and development to develop different types of EPVC. This will further diversify the Group's product mix and enhance the profit margin of the Group.

In conclusion, the PVC products manufactured from the new production lines will be more cost competitive after the aforesaid adjustments are made.

Heat and Power division

The increase in coal price will adversely affect the cost of production of Heat and Power division. To cope with the problem, the Board has formulated plans to build two new sets of coal powered generation facilities in early 2007.

Synergy from expansion of the production scale and streamline of production facilities

The synergy from expansion of the scale production of steam of the Heat and Power business for the Group's internal consumption will further lower the cost of production. The Group has started to construct the first new set of coal powered generation facilities to house the increased demand of steam required for the expanded scale of production of vinyl acetate and PVC. The newly designed coal powered generation facilities will be more efficient in ignition of coal. Less coal will be consumed to generate same level of energy output. Less effluent substance will be emitted to air and statutory environmental protection standard will be complied. The construction of the facilities is scheduled to be completed by the end of year 2008.

"Self-generated electricity allocated for self-consumption" Policy

The electricity generated by our coal powered generation facilities is connected to the state electricity grid and then supplied to the Electric Power Corporation. The self-generated electricity cannot be directly consumed by our production plants. The cost of self-generated electricity is much cheaper than that of the electricity direct purchased from the Electric Power Corporation even though the Electric Power Corporation charged a fee on the use of electricity grid.

The bio-chemical products business has obtained permission from the Electric Power Corporation that the electricity charge is calculated as the sum of the cost of self-generated electricity plus fee on the use of electricity grid. The Group has made application to extend such permission or policy to cover our new calcium carbide expansion project and planned new PVC expansion project. The goal of the Group is that all self-generated electricity will be allocated for self-consumption. The Group and the local government have reached common view on fighting for and putting into effect the aforesaid electricity pricing policy.

Increase in tariff on steam

Furthermore, the Group has already applied for the increase in tariff on steam generated and supplied to customers. This will lower the effect of the increase in purchase price of coal on cost of production.

Once the expansion projects are completed, better economy scales of production will be attended and more self-consumed electricity will be available. This will further lower the overall cost of production of the Group.

Financing for new calcium carbide expansion, new coal powered generation facilities and planned new PVC expansion

Even though the Group has a healthy cash position currently, the construction of calcium carbide production facilities and expansion of the Heat and Power business demands much capital expenditure. Due to the worldwide impact of the crisis of sub prime mortgage lending in the U.S.A., the PRC government lately imposed contractionary fiscal policy in order to stabilize the economy. Following the policy, the banks in the PRC tighten the credit policy for capital expenditure projects in recent times. In view of this, the Group may consider other means of financing to meet the expected capital expenditure.

Bio-chemical products division

The Board is optimistic on the development of bio-chemical products division (or our corn-based manufacturing arm currently producing starch and glucose) since the PRC government will not approve any new corn-based manufacturing project at the moment to avoid over-manufacturing of corn into chemicals raw materials for industrial use. In addition, during the Seventeenth National Congress of the Communist Party of China, Mr. Hu Jin Tao, the president of the PRC has announced that new policy advantage over the primary industry will be made in due course.

Improved relationship with suppliers and better market price expectation for finished goods

Moreover, the Group has developed strong relationship with corn suppliers, such as farmers and agricultural products co-operative societies, to ensure the stable supply of raw materials and maintain a lower average cost of corn purchased. In addition, the Board is optimistic about the market prices for the Group's glucose, starch and their downstream bio-chemical products.

Full utilization of the idle production facilities

In view of this, the Board considers to fully utilize the production facilities and take full advantage of the production capacities purchased during acquisition of Better Day Bio-Chem Technology Limited. The Group has planned to further process the glucose into sorbitol and Vitamin C. Application for renewal of production license of medicines has been furnished. Through suitable economy of scales of production and proper controls over the cost of production, the profit margin will grow reasonably in the near future.

Revision of the product mix

Furthermore, the Group is also contemplating to further diversify its product mix. Feasibility studies on the production of acetic acid, xanthan gum and sodium gluconate have been conducted. Developing and producing the high value-added bio-chemical products is the right direction of the Group, the Board believes that our bio-chemical products division will have a prosperity future.

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 Period.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

In the opinion of the Directors, the Company has during the Period complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), except for the period from 1 July 2007 up to 28 October 2007, of which Ms. Chan Yuk Foebe performed both roles of chairman and chief executive officer. Thereafter Mr. Chan Yuen Tung has been appointed as the chairman of the Board.

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. Until 28 October 2007, both roles were performed by Ms. Chan Yuk Foebe, the chief executive officer of the Company.

AUDIT COMMITTEE

The Company set up the Audit Committee on 8 April 2001, with written terms of reference, for the purposes of reviewing and providing supervision on the Group's financial reporting process and internal control systems. The Audit Committee comprises the three independent non-executive Directors of the Company, namely, Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the auditing, internal control and financial reporting aspects of the Company including the review of the unaudited interim results of the Company for the Period and there was no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

REMUNERATION COMMITTEE

A remuneration committee (the “Remuneration Committee”) was established by the Company on 1 July 2005 with specific written terms of reference which set out clearly its authority and duties. The Remuneration Committee, currently comprises Ms. Chan Yuk Foebe (executive director), Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho (both are independent non-executive Directors), is responsible for advising the Board on the remuneration policy and framework for all remuneration of the Directors and senior management of the Company, as well as reviewing and determining the remuneration packages of Directors and senior management with reference to the Company’s objectives from time to time.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON COMPANY WEBSITE

All information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on our website at www.irasia.com/listco/hk/chinazenith in due course.

By order of the Board

Chan Yuk Foebe

Chief Executive Officer

Hong Kong, 18 March 2008

As at the date of this announcement, the executive directors of the Company are Mr. Chan Yuen Tung, Ms. Chan Yuk Foebe, Mr. Peng Zhanrong, Mr. Chiau Che Kong and Mr. Wu Jianwei and the independent non-executive directors of the Company are Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong, Mr. Tam Ching Ho and Dato’ Wong Sin Just.