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 FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2008

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 2008 together with the comparative figures for the previous year as follows:

Consolidated Income Statement
For the year ended 30 June 2008

	Note	**2008** *HK$'000*	2007 *HK$'000*
Continuing operations			
Turnover	*3*	**1,666,103**	911,507
Cost of sales		**(1,180,137)**	(635,377)
Gross profit		**485,966**	276,130
Other income	*5*	**17,247**	10,588
Selling and distribution costs		**(38,579)**	(19,987)
Administrative expenses		**(121,634)**	(56,963)
Other operating expenses		**(25,755)**	(1,830)
Profit from operations		**317,245**	207,938
Finance costs	*6*	**(4,888)**	(4,507)
Profit before tax		**312,357**	203,431
Income tax credit/(expense)	*7*	**1,764**	(2,443)
Profit for the year from continuing operations		**314,121**	200,988

	Note	**2008** *HK$'000*	2007 *HK$'000*
Discontinued operations			
Loss for the year from discontinued operations		**–**	(125,962)
Profit for the year	*8*	**314,121**	75,026
Attributable to:			
Equity holders of the Company		**265,394**	64,256
Minority interests		**48,727**	10,770
		314,121	75,026
Earnings per share			
From continuing and discontinued operations			
– Basic	*10(a)*	**HK7.36 cents**	HK2.41 cents
– Diluted	*10(a)*	**HK7.31 cents**	HK2.41 cents
From continuing operations			
– Basic	*10(b)*	**HK7.36 cents**	HK6.76 cents
– Diluted	*10(b)*	**HK7.31 cents**	HK6.75 cents

Consolidated Balance Sheet
At 30 June 2008

	Note	2008 HK$'000	2007 HK$'000 (Restated)
Non-current assets			
Fixed assets		**1,165,441**	1,065,800
Prepaid land lease payments		**363,087**	150,807
Goodwill	*11*	**111,735**	74,612
Other intangible assets		**113,027**	112,840
Deposit paid for the acquisition of subsidiaries		**–**	50,000
Deferred tax assets		**3,309**	2,994
		1,756,599	1,457,053
Current assets			
Inventories		**103,874**	106,080
Trade receivables	*12*	**401,819**	142,851
Prepayments, deposits and other receivables		**303,913**	263,915
Financial assets at fair value through profit or loss		**21,324**	–
Bank and cash balances		**56,217**	170,047
		887,147	682,893
TOTAL ASSETS		**2,643,746**	2,139,946
Capital and reserves			
Issued share capital		**37,409**	33,778
Retained profits		**803,905**	536,796
Other reserves		**1,232,545**	932,828
Equity attributable to equity holders of the Company		**2,073,859**	1,503,402
Minority interests		**164,156**	240,777
Total equity		**2,238,015**	1,744,179
Non-current liabilities			
Bank loans		**47,558**	–
Deferred tax liabilities		**141,154**	157,263
		188,712	157,263
Current liabilities			
Trade payables	*13*	**29,386**	66,827
Other payables and accruals		**146,515**	141,098
Due to a minority shareholder of a subsidiary		**–**	4,108
Bank loans		**30,398**	25,675
Current tax liabilities		**10,720**	796
		217,019	238,504
Total liabilities		**405,731**	395,767
TOTAL EQUITY AND LIABILITIES		**2,643,746**	2,139,946
Net current assets		**670,128**	444,389
Total assets less current liabilities		**2,426,727**	1,901,442

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, 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 and investments 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 that are relevant to its operations and effective for its accounting year beginning on 1 July 2007. 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	Eliminations HK$'000	Sub-total HK$'000	Lubricant HK$'000	Anti–corrosive coatings HK$'000	Additives HK$'000	Sub-total HK$'000	Total HK$'000
Year ended 30 June 2008											
Segment revenue	882,761	450,787	105,272	274,656	(47,373)	1,666,103	–	–	–	–	1,666,103
Segment results	257,041	125,366	(4,517)	2,561	–	380,451	–	–	–	–	380,451
Other income						9,339				–	9,339
Unallocated expenses						(72,545)				–	(72,545)
Consolidated profit from operations						317,245				–	317,245
Finance costs						(4,888)				–	(4,888)
Consolidated profit before tax						312,357				–	312,357
Income tax credit						1,764				–	1,764
Consolidated profit for the year						314,121				–	314,121

	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$'000	Total HK$'000
As at 30 June 2008										
Segment assets	547,499	531,178	395,735	719,904	2,194,316	–	–	–	–	2,194,316
Unallocated assets					449,430					449,430
Total assets					2,643,746					2,643,746
Segment liabilities	34,554	56,517	97,796	141,580	330,447					330,447
Unallocated liabilities					75,284					75,284
Total liabilities					405,731					405,731
Year ended 30 June 2008										
Other segment information:										
Depreciation	9,031	8,887	6,889	13,921	38,728	–	–	–	–	38,728
Unallocated depreciation					666					666
					39,394					39,394
Amortisation of other intangible assets	–	1,566	4,232	–	5,798	–	–	–	–	5,798
Amortisation of prepaid land lease payments	646	556	1,224	721	3,147	–	–	–	–	3,147
Unallocated amortisation					2,900					2,900
					6,047					6,047
Capital expenditure	20,748	30,452	12,307	3,243	66,750	–	–	–	–	66,750
Unallocated capital expenditure					7,020					7,020
					73,770					73,770

	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*	Lubricant *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$'000* (Restated)	Lubricants *HK$'000*	Anti–corrosive coatings *HK$'000*	Additives *HK$'000*	Sub-total *HK$'000*	Total *HK$'000* (Restated)
As at 30 June 2007										
Segment assets	516,000	289,016	322,281	644,363	1,771,660	–	–	–	–	1,771,660
Unallocated assets					368,286					368,286
Total assets					2,139,946					2,139,946
Segment liabilities	21,554	40,332	82,999	66,494	211,379	–	–	–	–	211,379
Unallocated liabilities					184,388					184,388
Total liabilities					395,767					395,767
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 other intangible assets	–	1,080	2,116	–	3,196	–	–	–	–	3,196
Amortisation of prepaid land lease payments	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

(b) Geographical segments

Over 90% of the Group's revenue and assets are derived from customers and operations based in the People's Republic of China ("PRC") and accordingly, no further analysis of the Group's geographical segments is disclosed.

5. OTHER INCOME

	Group 2008 HK$'000	2007 HK$'000
Dividend income	**166**	–
Exchange difference	**114**	–
Gain on disposal of financial assets at fair value through profit or loss (held for trading)	**4,756**	1,470
Gain on disposal of fixed assets	**3**	262
Government grants *(note)*	**3,929**	1,564
Interest income	**4,560**	5,136
Rental income	**–**	300
Reversal of revaluation deficit on buildings	**327**	1,973
Sundry income	**3,392**	1,182
Write back of other payables	**–**	2,334
	17,247	14,221
Representing:		
Continuing operations	**17,247**	10,588
Discontinued operations	**–**	3,633
	17,247	14,221

Note: Government grants for the years ended 30 June 2007 and 2008 were received for refund of value-added tax and government charges. There are no unfulfilled conditions or contingencies attached to the grants.

6. FINANCE COSTS

	Group 2008 HK$'000	2007 HK$'000
Continuing operations:		
Interest on bank loans	**2,516**	1,408
Interest on other loans wholly repayable within five years	**–**	1,939
Interest on discounted bills	**2,372**	1,160
	4,888	4,507

7. INCOME TAX (CREDIT)/EXPENSE

	Group	
	2008	2007
	HK$'000	*HK$'000*
Current tax – Overseas		
Provision for the year	**30,009**	2,443
Underprovision in prior years	**5,350**	–
	35,359	2,443
Deferred tax	**(37,123)**	–
	(1,764)	2,443

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 (2007: 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 Co., Ltd. ("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 Limited ("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 Company Limited ("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 tax losses brought forward to set off against current year's assessable profit.

The provision for income tax of other subsidiaries operating in the PRC have been calculated at the rate of 33% for the six months ended 31 December 2007 and 25% for the six months ended 30 June 2008 (2007: 33% throughout the year), 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 is effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements has been reflected in the current year's consolidated income statement.

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**	
	2008	**2008**	**2008**	**2008**	**2008**	**2008**
	HK$'000	*%*	***HK$'000***	*%*	***HK$'000***	*%*
Profit/(loss) before tax	**(54,267)**		**366,624**		**312,357**	
Tax at the statutory tax rate	**(9,497)**	**(17.5)**	**91,656**	**25.0**	**82,159**	**26.3**
Preferential statutory tax rate offered	**–**	**–**	**(75,139)**	**(20.5)**	**(75,139)**	**(24.1)**
Income tax exempted	**(1,043)**	**(1.9)**	**(4,317)**	**(1.2)**	**(5,360)**	**(1.7)**
Expenses not deductible for tax	**10,540**	**19.4**	**4,013**	**1.1**	**14,553**	**4.7**
Unrecognised temporary differences	**–**	**–**	**(2,148)**	**(0.6)**	**(2,148)**	**(0.7)**
Tax losses not recognised	**–**	**–**	**380**	**0.1**	**380**	**0.1**
Utilisation of tax losses not previously recognised	**–**	**–**	**(4,637)**	**(1.3)**	**(4,637)**	**(1.5)**
Effect of change in tax rate	**–**	**–**	**(16,922)**	**(4.6)**	**(16,922)**	**(5.4)**
Underprovision in prior years	**–**	**–**	**5,350**	**1.5**	**5,350**	**1.7**
Tax credit at the Group's effective tax rate	**–**	**–**	**(1,764)**	**(0.5)**	**(1,764)**	**(0.6)**

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is HK$18,659,000 (2007: HK$Nil). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

Group

	Hong Kong		The PRC		Total	
	2007	2007	2007	2007	2007	2007
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
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

8. PROFIT FOR THE YEAR

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

	Continuing operations		Discontinued operations		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Auditor's remuneration	**930**	980	**–**	–	**930**	980
Allowance for receivables	**2,397**	808	**–**	18,978	**2,397**	19,786
Allowance for inventories (included in cost of inventories sold)	**–**	80	**–**	2,481	**–**	2,561
Write off of fixed assets	**8,101**	1,198	**–**	47,624	**8,101**	48,822
Write off of prepaid land lease payments	**–**	–	**–**	13,420	**–**	13,420
Amortisation of other intangible assets (included in administrative expenses)	**5,798**	3,196	**–**	–	**5,798**	3,196
Cost of inventories sold	**924,651**	519,365	**–**	112,009	**924,651**	631,374
Depreciation	**39,394**	24,783	**–**	2,580	**39,394**	27,363
Minimum lease payment under operating leases for land and buildings	**8,377**	4,073	**–**	1,055	**8,377**	5,128
Research and development costs expensed	**–**	–	**–**	55	**–**	55
Fair value loss on financial assets at fair value through profit or loss (held for trading)	**16,600**	–	**–**	–	**16,600**	–
Staff costs (excluding directors' remuneration):						
Wages, salaries and benefits in kind	**34,367**	24,176	**–**	633	**34,367**	24,176
Employee share option benefits	**33,668**	–	**–**	–	**33,668**	–
Retirement benefits scheme contributions	**4,238**	3,010	**–**	–	**4,238**	3,010

Cost of inventories sold includes staff costs and depreciation of approximately HK$18,113,000 (2007: HK$12,647,000) and HK$24,833,000 (2007: HK$13,300,000), respectively, which are included in the amounts disclosed separately in the continuing operations.

For the year ended 30 June 2007, cost of inventories sold includes staff costs and depreciation of approximately HK$332,000 and HK$1,003,000, 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 2008 (2007: Nil).

10. EARNINGS PER SHARE

(a) Earnings per share 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$265,394,000 (2007: HK$64,256,000) and the weighted average number of ordinary shares of 3,603,712,828 (2007: 2,663,794,684) 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$265,394,000 (2007: HK$64,256,000) and the weighted average number of ordinary shares of 3,631,289,113 (2007: 2,666,152,668), being the weighted average number of ordinary shares of 3,603,712,828 (2007: 2,663,794,684) in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 27,576,285 (2007: 2,357,984) assumed to have been issued at no consideration on the deemed exercise of the share options and warrants outstanding during the year.

(b) Earnings per share from continuing operations

Because there is no discontinued operations during the year ended 30 June 2008, the basic and diluted earnings per share from continuing operations are the same as that from continuing and discontinued operations.

The calculation of basic and diluted earnings per share from continuing operations attributable to equity holders of the Company for the year ended 30 June 2007 is based on the profit for the year from continuing operations attributable to equity holders of the Company of approximately HK$180,084,000 and the denominator used is the same as that detailed above for basic and diluted earnings per share from continuing and discontinued operations.

(c) Loss per share from discontinued operations

Basic loss per share from the discontinued operations for the year ended 30 June 2007 is HK4.35 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.

Diluted loss per share from the discontinued operations for the year ended 30 June 2007 is HK4.34 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 diluted earnings per share from continuing and discontinued operations.

11. GOODWILL

During the year ended 30 June 2007, the Group acquired Mudanjiang BD Power of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the year ended 30 June 2008, the Group made certain fair value adjustments to the carrying amounts of the identifiable assets and liabilities of Mudanjiang BD Power acquired as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable assets and liabilities and contingent liabilities were made as if initial accounting had been incorporated from acquisition date.

12. 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	
	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**102,990**	59,066
31 to 60 days	**111,542**	48,259
61 to 90 days	**66,297**	19,602
91 to 120 days	**27,412**	5,576
121 to 150 days	**18,532**	5,778
151 to 180 days	**18,099**	3,186
181 to 240 days	**22,893**	1,384
241 to 330 days	**30,223**	–
331 to 365 days	**3,484**	–
Over 365 days	**347**	–
	401,819	142,851

As at 30 June 2008, an allowance was made for estimated irrecoverable trade receivables of approximately HK$2,397,000 (2007: HK$Nil). The movement of allowance is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
At beginning of year	**–**	–
Allowance made for the year	**2,397**	19,786
Written off	**–**	(19,786)
At end of year	**2,397**	–

As of 30 June 2008, trade receivables of HK$75,959,000 (2007: HK$5,691,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Up to 90 days	**485**	868
91 to 180 days	**18,527**	3,439
180 to 365 days	**56,600**	1,384
Over 365 days	**347**	–
	75,959	5,691

13. 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	
	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**12,613**	34,649
31 to 60 days	**1,511**	11,266
61 to 90 days	**3,061**	5,438
91 to 120 days	**4,215**	509
121 to 365 days	**5,848**	10,535
Over 365 days	**2,138**	4,430
	29,386	66,827

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

With crude oil prices continuing to stay at historical heights, our coal related production chemical raw materials had maintained its competitive cost advantage over petrochemical based chemical raw materials produced by our rivals during the financial year under review.

Such competitive cost advantage is the results of the Group's efforts over the years in enhancing the quality of the coal related chemical businesses and raising the overall competitiveness through streamlining the production methods.

The high price of commodities and crude oil has caused inflation pressure and pressure on Renminbi ("RMB") to appreciate, the PRC government has tightened the monetary policies which resulted in rising borrowing cost.

The high price of coal and industrial salt or direct materials of the Group had increased the production cost of the Group. This, in turn, caused the rise in price of calcium carbide, which is a kind of raw material consume high level of electricity in its production process. These sellers' market situations had weakened our bargaining power in negotiating credit terms with our suppliers.

In addition, our downstream industrial customers also facing the fierce competitions, the Group had unwillingly extended our credit terms given to them. This had tightened our liquid working capital.

Facing such challenge, the Group had carried out a series of cost and expenditure review procedures to cope with the tightened cash position. Also, the management is cautious in collection of debts from our customers with extended credit terms. Moreover, the Group had focused on the core business and made necessary adjustments to react to the volatile business environment. The enhancement of quality and service standard of vinyl acetate business enabled the Group to maintain the relationship with the loyal customers. In respect of PVC business, the Group had expanded the production capacities and pursuing higher value-added products to maintain our overall competitiveness.

Our dedication and effort was to enhance the Group's competitiveness, attain the suitable economy of scale of production and aim at producing high value-added products. All of these had proven the abilities of the management to achieve excellent financial results.

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 method other than using the petroleum related production method during high crude oil price period, the expansion of production capacity, the revision of product mix, the effective cost control over material consumption in production cycles and the appealing cutback in bulk purchase of main raw materials.

PVC

During the financial year, the PVC segment recorded a turnover of approximately HK$882,761,000 representing a significant increase of 73.9% over approximately HK$507,647,000 in last year. Operating profit of approximately HK$257,041,000 represented a significant increase of 74.9% over approximately HK$146,993,000 in last year. The growth in turnover was mainly due to the increase in production quantities after the upgrade and streamline of the existing production facilities. The increase in operating profit was mainly due to both revised product mix, after the Group has started to manufacture emulsion PVC in September 2007 and suitable economy of scale after the production line was streamlined.

Vinyl acetate

During the financial year, turnover was approximately HK$450,787,000, representing a significant increase of 52.3% over approximately HK$296,073,000 in last year. Operating profit was approximately HK$125,366,000, representing a significant increase of 31.2% over approximately HK$95,524,000 in last 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.

Bio-chemical products division

The Group originally held 60% equity interest in the Mudanjiang Gaoke Bio-Chem Co., Ltd. ("Mudanjiang Gaoke"). Upon the completion of acquisition of the Better Lion Holdings Limited on 27 May 2008, the holder of 40% equity interest in the Mudanjiang Gaoke, Mudanjiang Gaoke became a wholly-owned subsidiary of the Group.

During the year under review, the glucose and starch segment recorded a turnover of approximately HK$274,656,000 representing a significant increase of 186.3% (based on monthly proportional adjustment: ten months in last year and twelve months in this year) over the corresponding period of previous year. Operating profit of approximately HK$2,561,000 was attained during the year under review while there was an operating loss of approximately HK$31,122,000 in last year.

The Bio-chemical products division could only make a slight profit during this financial year. Being responsible executives acting in the best interest of the shareholders, the board had decided to temporarily suspend the production of glucose and starch to find a possible way to improve the financial performance of the Bio-chemical products division.

Heat and power division

The Group had successfully secured a steady supply of steam, the key input to the production process of the Group through the acquisition of Mudanjiang Better Day Power Ltd. Furthermore, this enabled the Group to lower its cost of production and in turn maintain its competitive advantage in the region.

During the year under review, the heat and power segment recorded a turnover of approximately HK$61,496,000 (after elimination of intra-group sales of HK$43,776,000, representing an increase of 7.5% (based on monthly proportional adjustment: six months in last year and twelve months in this year) over the corresponding period of the previous year. Operating loss of approximately HK$4,517,000 was recorded during the year under review while there was an operating profit of approximately HK$3,674,000 in last year.

The operating loss was mainly the result of the increase in purchase price of coal. Mudanjiang Better Day Power Ltd. had made application for the increase in tariff of both steam and electricity being generated to cover the increased production cost.

Prospects

PVC

Increase in cost of calcium carbide and electricity

The Group foresees that the outsourced price of calcium carbide and electricity will 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. At the date of this announcement, 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, it is expected that the Group will spend more and put more effort in further improvement of the production facilities.

Vertical integration to the production of calcium carbide

The production of both vinyl acetate and PVC consumes large amount of calcium carbide as major raw materials. Faced with continuing 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 first phase of construction of our own calcium carbide production facilities for internal consumption has been started in November 2007. For the first phase, the designed annual production capacities of calcium carbide is expected to be 100,000 tonnes. After completion of the whole project, the calcium carbide will be internally produced and will further lower the cost for the coal related chemical products division. It is expected that construction of the first phase factory buildings will be completed in late 2008.

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 increase in coal price will adversely affect the cost of production of heat and power division. To cope with the problem, the Board has started to build the first new set of coal powered generation facilities in October 2007.

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 and also 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 first new set of production facilities is scheduled to be completed by the mid of 2009.

"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 directly 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.

Looking forward, the business environment will certainly be full of challenges. The management will face the challenge with courage and continue to dedicate to enhancing and leveraging on the competitive advantages of the Group.

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

During this financial year, the Company raised funds by issuing 188,100,000 new shares through the exercise of share options by option holders. The net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$89 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$38 million working capital was not yet utilised by the Group.

In the last financial year, the net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$35 million. As 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 by issuing 174,958,750 new shares through the exercise of bonus warrants. Details relating to the issue of bonus warrants were announced dated 22 March 2007 ("Bonus Warrants"). The net proceeds raised from the exercise of Bonus Warrants was approximately HK$75 million. As at the date of this announcement, the whole amount of the proceeds was utilised by the Group as working capital.

In the last financial year, the net proceeds raised from the exercise of Bonus Warrants was approximately HK$66 million. As at the date of this announcement, the whole amount was utilised by the Group as working capital.

The net proceeds raised from the open offer by issuing 1,050,770,000 offer shares announced on 23 November 2006 were approximately HK$307 million. As 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 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.

Liquidity and Financial Ratios

As at 30 June 2008, the Group had total assets of approximately HK$2,643.7 million (2007 (restated): HK$2,140.0 million) which were financed by current liabilities of approximately HK$217.0 million (2007: HK$238.5 million), non-current liabilities of approximately HK$188.7 million (2007 (restated): HK$157.3 million), minority interests of approximately HK$164.1 million (2007: HK$240.8 million) and shareholders' equity of approximately HK$2,073.9 million (2007: HK$1,503.4 million).

As at 30 June 2008, the current assets of the Group amounted to approximately HK$887.1 million (2007: HK$682.9 million) comprising inventories of approximately HK$103.9 million (2007: HK$106.1 million), trade receivables of approximately HK$401.8 million (2007: HK$142.9 million), prepayments, deposits and other receivables of approximately HK$303.9 million (2007: HK$263.9 million), financial assets at fair value through profit or loss of approximately HK$21.3 million (2007: HK$Nil), cash and cash equivalents of approximately HK$56.2 million (2007: HK$170.0 million).

As at 30 June 2008, 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 4.1 (2007: 2.9), 3.6 (2007: 2.4), 15.3% (2007 (restated): 18.5%) and 19.6% (2007 (restated): 26.3%), respectively.

The financial health of the Group has been remained strong throughout the year as indicated by the above figures.

Significant investment held by the Company

As at 30 June 2008, the Company did not have any significant investments except the financial assets at fair value through profit or loss of approximately HK$21.3 million, the Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$16.6 million for the Period.

Charges on the Group's assets

As at 30 June 2008, bank loans of approximately HK$78.0 million are secured by charges over the Group's certain fixed assets and prepaid land lease payments.

Contingent liabilities

As at 30 June 2008, the Group did not have any significant contingent liabilities.

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 2008.

Number and Remuneration of Employees

As at 30 June 2008, the Group had 2,120 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.

During this financial year, there were 409.0 million share options granted to senior management of the PRC subsidiaries of the Company, out of which 82.4 million and 105.7 million share options were exercised in August 2007 and June 2008. As a result, 188.1 million ordinary shares of the Company were issued and additional working capital of approximately HK$89.1 million was received. As at the date of this announcement, 220.9 million share options were 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 134.8 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 2008.

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 2008.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

For the year ended 30 June 2008, the Group has applied the principles of the Code on Corporate Governance Practices (the"CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and complied with the code provisions of the CG Code, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 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 Yuen Tung
Chairman

Hong Kong, 23 September 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.