中國天
China Zenith

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

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

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2009

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 2009 together with the comparative figures for the previous year as follows:

Consolidated Income Statement

For the year ended 30 June 2009

	Note	**2009** **HK$'000**	2008 HK$'000
Turnover	3	**1,095,614**	1,666,103
Cost of sales		**(832,637)**	(1,180,137)
Gross profit		**262,977**	485,966
Other income	5	**95,577**	17,247
Selling and distribution costs		**(13,970)**	(38,579)
Administrative expenses		**(78,768)**	(121,634)
Other operating expenses		**(16,020)**	(25,755)
Profit from operations		**249,796**	317,245
Finance costs	6	**(5,894)**	(4,888)
Profit before tax		**243,902**	312,357
Income tax (expense)/credit	7	**(38,042)**	1,764
Profit for the year	8	**205,860**	314,121
Attributable to:			
Equity holders of the Company		**167,896**	265,394
Minority interests		**37,964**	48,727
		205,860	314,121
Earnings per share			
– Basic	10	**HK4.49 cents**	HK7.36 cents
– Diluted	10	**HK4.49 cents**	HK7.31 cents

Consolidated Balance Sheet

At 30 June 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Fixed assets		**1,673,320**	1,165,441
Prepaid land lease payments		**546,428**	363,087
Goodwill		**123,589**	111,735
Other intangible assets		**107,032**	113,027
Deferred tax assets		**1,594**	3,309
		2,451,963	1,756,599
Current assets			
Inventories		**62,305**	103,874
Trade receivables	11	**435,241**	401,819
Prepayments, deposits and other receivables		**86,855**	303,913
Financial assets at fair value through profit or loss		**7,202**	21,324
Bank and cash balances		**12,388**	56,217
		603,991	887,147
TOTAL ASSETS		**3,055,954**	2,643,746
Capital and reserves			
Issued share capital		**37,409**	37,409
Retained profits		**971,801**	803,905
Other reserves		**1,235,198**	1,232,545
Equity attributable to equity holders of the Company		**2,244,408**	2,073,859
Minority interests		**176,617**	164,156
Total equity		**2,421,025**	2,238,015
Non-current liabilities			
Bank loans		**45,416**	47,558
Deferred tax liabilities		**160,643**	141,154
		206,059	188,712
Current liabilities			
Trade payables	12	**43,821**	29,386
Other payables and accruals		**226,471**	146,515
Due to a minority shareholder of a subsidiary		**82,124**	–
Bank loans		**57,606**	30,398
Current tax liabilities		**18,848**	10,720
		428,870	217,019
Total liabilities		**634,929**	405,731
TOTAL EQUITY AND LIABILITIES		**3,055,954**	2,643,746
Net current assets		**175,121**	670,128
Total assets less current liabilities		**2,627,084**	2,426,727

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 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 issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 July 2008. 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:

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

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

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

(iv) manufacture and sale of vitamin C, glucose and starch ("Vitamin C, glucose and starch"); and

(v) manufacture and sale of calcium carbide ("Calcium carbide").

(a) Business segments

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Eliminations HK$'000	Consolidated HK$'000
Year ended 30 June 2009							
Segment revenue	**616,382**	**391,497**	**111,345**	**16,448**	**–**	**(40,058)**	**1,095,614**
Segment results	**150,644**	**124,788**	**38,221**	**(35,521)**	**(6,763)**	**–**	**271,369**
Other income							**1,949**
Unallocated expenses							**(23,522)**
Profit from operations							**249,796**
Finance costs							**(5,894)**
Profit before tax							**243,902**
Income tax expense							**(38,042)**
Profit for the year							**205,860**

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Eliminations HK$'000	Consolidated HK$'000
Year ended 30 June 2008							
Segment revenue	882,761	450,787	105,272	274,656	–	(47,373)	1,666,103
Segment results	257,041	125,366	(4,517)	2,561	(4,862)	–	375,589
Other income							9,339
Unallocated expenses							(67,683)
Profit from operations							317,245
Finance costs							(4,888)
Profit before tax							312,357
Income tax credit							1,764
Profit for the year							314,121

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Consolidated HK$'000
As at 30 June 2009						
Segment assets	**574,120**	**484,256**	**427,949**	**653,687**	**684,299**	**2,824,311**
Unallocated assets						**231,643**
Total assets						**3,055,954**
Segment liabilities	**13,540**	**14,880**	**80,478**	**89,099**	**51,597**	**249,594**
Unallocated liabilities						**385,335**
Total liabilities						**634,929**
Year ended 30 June 2009						
Other segment information:						
Depreciation	**13,429**	**10,203**	**6,503**	**16,138**	**98**	**46,371**
Unallocated depreciation						**893**
						47,264
Amortisation of other intangible assets	**–**	**1,735**	**4,232**	**–**	**–**	**5,967**
Amortisation of prepaid land lease payments	**683**	**588**	**1,247**	**763**	**2,833**	**6,114**
Unallocated amortisation						**682**
						6,796
Capital expenditure	**2,282**	**1,363**	**109,128**	**90,613**	**348,696**	**552,082**
Unallocated capital expenditure						**18**
						552,100

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Consolidated HK$'000
As at 30 June 2008						
Segment assets	547,499	531,178	395,735	719,904	195,909	2,390,225
Unallocated assets						253,521
Total assets						2,643,746
Segment liabilities	24,075	25,667	70,820	54,184	–	174,746
Unallocated liabilities						230,985
Total liabilities						405,731
Year ended 30 June 2008						
Other segment information:						
Depreciation	9,031	8,887	6,889	13,921	96	38,824
Unallocated depreciation						570
						39,394
Amortisation of other intangible assets	–	1,566	4,232	–	–	5,798
Amortisation of prepaid land lease payments	646	556	1,224	721	2,559	5,706
Unallocated amortisation						341
						6,047
Capital expenditure	20,748	30,452	12,307	3,243	16	66,766
Unallocated capital expenditure						7,004
						73,770

(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 (the "PRC") and accordingly, no further analysis of the Group's geographical segments is disclosed.

5. OTHER INCOME

	Group 2009 HK$'000	2008 HK$'000
Dividend income	**521**	166
Exchange difference	**–**	114
Gain on disposal of financial assets at fair value through profit or loss (held for trading)	**856**	4,756
Gain on disposal of fixed assets	**9**	3
Government grants (note)	**89,796**	3,929
Interest income	**570**	4,560
Reversal of revaluation deficit on buildings	**1,371**	327
Sundry income	**2,454**	3,392
	95,577	17,247

Note: Government grants for the year ended 30 June 2009 were received for subsidies and refund of value-added tax and government charges. Government grants for the year ended 30 June 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 2009 HK$'000	2008 HK$'000
Interest on bank loans	**5,239**	2,516
Interest on discounted bills	**655**	2,372
	5,894	4,888

7. INCOME TAX (EXPENSE)/CREDIT

	Group 2009 HK$'000	2008 HK$'000
Current tax – Overseas		
Provision for the year	**39,745**	30,009
Underprovision in prior years	**40**	5,350
Withholding tax on dividend income	**11,926**	–
	51,711	35,359
Deferred tax	**(13,669)**	(37,123)
	38,042	(1,764)

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 (2008: 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 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. No provision for PRC enterprise income tax has been made 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 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. No provision for PRC enterprise income tax has been made as Mudanjiang Gaoke has no assessable profit for the year.

Mudanjiang Daytech Chemical Ltd. ("Mudanjiang Daytech Chemical"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. No provision for PRC enterprise income tax has been made as Mudanjiang Daytech Chemical has no assessable profit for the year.

The provision for income tax of other subsidiaries operating in the PRC have been calculated at the rate of 25% for the year ended 30 June 2009 (2008: 33% for the six months ended 31 December 2007 and 25% for the six months ended 30 June 2008), based on existing legislation, interpretation and practices in respect thereof.

Pursuant to the Corporate Income Tax Law of the PRC approved by the National People's Congress on 16 March 2007, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividend derived from sources within the PRC.

According to the notice Cai Shui [2008] No.1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from withholding tax. Accordingly, the retained profits at 31 December 2007 in the Group's foreign-invested enterprises' books and accounts will not be subject to withholding tax on dividend at 10% on future distribution.

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

For the year ended 30 June 2009

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(17,978)		261,880		243,902	
Tax at the statutory tax rate	(2,966)	(16.5)	65,470	25.0	62,504	25.6
Preferential statutory tax rate offered	–	–	(40,733)	(15.6)	(40,733)	(16.7)
Income tax exempted	(90)	(0.5)	–	–	(90)	–
Expenses not deductible for tax	333	1.8	–	–	333	0.1
Unrecognised temporary differences	64	0.4	(3,558)	(1.4)	(3,494)	(1.4)
Tax losses not recognised	2,659	14.8	4,096	1.6	6,755	2.8
Withholding tax	–	–	11,926	4.6	11,926	4.9
Effect of change in tax rate in prior year	–	–	801	0.3	801	0.3
Underprovision in prior years	–	–	40	–	40	–
Tax expense at the Group's effective tax rate	–	–	38,042	14.5	38,042	15.6

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 approximately HK$45,500,000 (2008: HK$18,659,000). 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.

For the year end 30 June 2008

	Hong Kong		The PRC		Total	
	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)

8. PROFIT FOR THE YEAR

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

	2009	2008
	HK$'000	HK$'000
Auditor's remuneration	**850**	930
Allowance for receivables		
– trade receivables	**4,226**	2,397
– other receivables	**2,562**	–
Write off of fixed assets	**2,401**	8,101
Amortisation of other intangible assets (included in administrative expenses)	**5,967**	5,798
Cost of inventories sold	**832,637**	1,180,137
Depreciation	**47,264**	39,394
Minimum lease payment under operating leases for land and buildings	**9,136**	8,377
Fair value loss on financial assets at fair value through profit or loss (held for trading)	**9,250**	16,600
Staff costs (excluding directors' remuneration):		
Wages, salaries and benefits in kind	**28,194**	34,367
Employee share option benefits	**–**	33,668
Retirement benefits scheme contributions	**5,298**	4,238

Cost of inventories sold includes staff costs and depreciation of approximately HK$11,686,000 (2008: HK$18,113,000) and HK$30,983,000 (2008: HK$24,833,000), respectively, which are included in the amounts disclosed separately above.

9. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2009 (2008: Nil).

10. EARNINGS PER SHARE

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$167,896,000 (2008: HK$265,394,000) and the weighted average number of ordinary shares of 3,740,887,824 (2008: 3,603,712,828) in issue during the year.

Diluted earnings per share

There were no potential ordinary shares in issue during the year ended 30 June 2009. No diluted earnings per share information is disclosed.

The calculation of diluted earnings per share attributable to equity holders of the Company for the year ended 30 June 2008 is based on the profit for the year ended 30 June 2008 attributable to equity holders of the Company of approximately HK$265,394,000 and the weighted average number of ordinary shares of 3,631,289,113, being the weighted average number of ordinary shares of 3,603,712,828 in issue during the year ended 30 June 2008 used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 27,576,285 assumed to have been issued at no consideration on the deemed exercise of the share options and warrants outstanding during the year ended 30 June 2008.

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	
	2009	2008
	HK$'000	HK$'000
Within 30 days	**145,071**	102,990
31 to 60 days	**93,243**	111,542
61 to 90 days	**60,647**	66,297
91 to 120 days	**37,992**	27,412
121 to 150 days	**29,013**	18,532
151 to 180 days	**14,512**	18,099
181 to 240 days	**8,885**	22,893
241 to 330 days	**1,677**	30,223
331 to 365 days	**1,157**	3,484
Over 365 days	**43,044**	347
	435,241	401,819

As at 30 June 2009, an allowance was made for estimated irrecoverable trade receivables of approximately HK$6,146,000 (2008: HK$2,397,000). The movement of allowance is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
At beginning of year	**2,397**	–
Allowance made for the year	**4,226**	2,397
Written off	**(475)**	–
Exchange differences	**(2)**	–
At end of year	**6,146**	2,397

As of 30 June 2009, trade receivables of approximately HK$70,792,000 (2008: HK$75,959,000) 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	
	2009	2008
	HK$'000	HK$'000
Up to 90 days	**995**	485
91 to 180 days	**15,034**	18,527
181 to 365 days	**11,719**	56,600
Over 365 days	**43,044**	347
	70,792	75,959

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	
	2009	2008
	HK$'000	HK$'000
Within 30 days	**10,035**	12,613
31 to 60 days	**14,216**	1,511
61 to 90 days	**4,424**	3,061
91 to 120 days	**3,626**	4,215
121 to 365 days	**5,495**	5,848
Over 365 days	**6,025**	2,138
	43,821	29,386

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

The financial turmoil, which has taken the world by storm, has had a major impact on the global economy. China's export has been adversely affected. Likewise, China's domestic consumption has also been weakened. Moreover, after the Beijing Olympic Games 2008, the development of new large scale infrastructure construction project generally slowed down to avoid overheating economy and over investment. The PRC government has also imposed more stringent macro economic measures to stabilise the growth of both financial and properties markets. The decline in export, local consumption and both public and private investment contributed to a surprisingly rapid and drastic downturn of the economy of China.

Facing the formidable external operating environment, the Group's operation was inevitably and unfavorably affected by the weakening of demand from our downstream customers including: construction and building industries, automobile accessories' material manufacturing, healthcare products industries, manufacture of chemical fibers, emulsifiers and paper-making industries. Moreover, the unprecedented volatilities in key raw materials prices had also raised our overall cost of production.

Business Review

Coal related chemical products division

PVC

During the financial year, the PVC segment recorded a turnover of approximately HK$616,382,000 representing a decrease of 30.2% over approximately HK$882,761,000 in last year. Operating profit of approximately HK$150,644,000 represented a decrease of 41.4% over approximately HK$257,041,000 in last year. Nevertheless, separating the effect of the government grants and government subsidies of approximately HK$27,863,000 and HK$1,474,000 for both of the years ended 30 June 2009 and 30 June 2008 respectively, the operating profit without government grants and subsidies for the year ended 30 June 2009 was approximately HK$122,781,000, representing a decrease of 52.0% over approximately HK$255,567,000 in last year.

The decline in turnover was mainly driven by the fall in demand of PVC by our customers. The reduction in production volume made an undesirable effect on the economies scales of production previously attained by the segment.

Vinyl acetate

During the financial year, turnover was approximately HK$391,497,000, representing a decrease of 13.2% over approximately HK$450,787,000 in last year. Operating profit was approximately HK$124,788,000, representing a decrease of 0.5% over approximately HK$125,366,000 in last year. Nevertheless, separating the effect of the government grants and government subsidies of approximately HK$30,193,000 and HK$2,084,000 for both of the years ended 30 June 2009 and 30 June 2008 respectively, the operating profit without government grants and subsidies for the year ended 30 June 2009 was approximately HK$94,595,000, representing a decrease of 23.3% over approximately HK$123,282,000 in last year.

The price of the major raw materials, namely calcium carbide, remained at high level during the financial year. However, we could not shift the cost burden to our customers. Consequently, the margin and operating profit of vinyl acetate segment was squeezed during the financial year.

Calcium Carbide

The first phase of construction of our own calcium carbide production facilities in Mudanjiang for internal consumption is nearly completed at the moment. Currently, the Mudanjiang management is planning for the test run of the production facilities of calcium carbide.

On the other hand, the Group has acquired a single piece of industrial land with a site area of approximately 1,000,000 square metres through the completion of acquisition of 55% of the issued share capital of Racing Dragon Group Limited on 19 June 2009. The first phase of construction of our own calcium carbide production facilities in Heihe has commenced in mid-2009.

During the year under review, the Group's calcium carbide project is still in development phase and has yet generate any revenue. Operating loss of approximately HK$6,763,000 was recorded during the year under review while there was an operating loss of approximately HK$4,862,000 in last year. The operating loss mainly represented the amortisation charge of prepaid land lease payments and the administrative expenses incurred during the project construction phase.

Bio-chemical products division

During the financial year, the vitamin C, glucose and starch segment recorded a turnover of approximately HK$16,448,000 representing a decrease of 94.0% over approximately HK$274,656,000 in last year. Operating loss of approximately HK$35,521,000 was attained during the year under review while there was an operating profit of approximately HK$2,561,000 in last year.

The production of glucose and starch has been temporarily suspended since May 2008 while the modification and refurbishment of the existing vitamin C production facilities and the expansion of the production capacity have started. Inevitably, it was not possible to avoid the fixed factory overhead to keep the machinery in working condition.

Heat and power division

The heat and power division had secured a steady supply of steam, the key input to the production process of the Group. Moreover, the heat and power division 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$73,713,000 (after elimination of intra-group sales of approximately HK$37,632,000), representing an increase of 19.9% over approximately HK$61,496,000 (after elimination of intra-group sales of approximately HK$43,776,000) in last year. Operating profit of approximately HK$38,221,000 was recorded during the year under review while there was an operating loss of approximately HK$4,517,000 in last year. Nonetheless, taking out the effect of the government subsidies granted of approximately HK$31,256,000 for the year ended 30 June 2009, the operating profit for the year ended 30 June 2009 was approximately HK$6,965,000.

Mudanjiang Better Day Power Ltd. had made application for the increase in tariff of both steam and electricity. The local government had not approved the tariff increase. Instead, government subsidies were granted to relieve the burden of the increased production cost.

Prospects

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

PRC government economic stimulus plan

Owing to the worldwide financial turmoil, the PRC economy could never be stand alone in the global economy and thus was also adversely affected. The PRC government has been publicly endorsing and implementing various expansionary fiscal and administrative policies to stimulate domestic demand in order to maintain a continuous, stable and healthy growth of the PRC economy.

The PRC government announced its RMB4 trillion economic stimulus plans in the first quarter of 2009. Around RMB3 trillion was planned to be spent on public infrastructure, housing and technology reform projects in the coming five years. The Board expects that such large scale of nationwide construction projects will consume enormous amount of construction materials and in turn, the demand of PVC in the PRC will be expected to be substantial in the near future.

The domestic demand for the Group's products is increasing as indicated by its increased sales since the second quarter of 2009.

Test run production of vitamin C

The refurbishment and upgrade of vitamin C production facilities is re-scheduled to be completed in the fourth quarter of 2009. The test run of the first manufacturing process of vitamin C has commenced in October 2009. The second and third manufacturing processes of vitamin C are undergoing further refurbishment. The refurbished vitamin C production facilities are expected to operate at annual designed production capacities of 3,000 tonnes.

Test run production of calcium carbide

The test run of the newly built calcium carbide production facilities is scheduled to be completed in the fourth quarter of 2009. The production facilities are expected to operate at annual designed production capacities of 100,000 tonnes. When the calcium carbide production facilities operate at designed capacities, the output can be nearly consumed internally by the PVC and vinyl acetate production. It will further lower the overall cost of production of PVC and vinyl acetate.

The Board believes that as the PRC economy recovers, the benefits from the improvement in the results of the Group's coal-related business and bio-chemical business will be more apparent.

Capital Structure, Liquidity and Financial Resources

Equity funding

During the financial period under review, no equity fund raising exercise was performed.

During the year ended 30 June 2008, 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 report, the whole amount was utilised as working capital of the Group.

The net proceeds raised from the open offer announced on 18 June 2009 by issuing 1,870,443,912 offer shares at HK$0.11 on the basis of one offer share for two shares held were approximately HK$201 million. As at the date of this report, approximately HK$149 million had been utilised as working capital and approximately HK$52 million working capital was not yet utilised by the Group.

Liquidity and Financial Ratios

As at 30 June 2009, the Group had total assets of approximately HK$3,056.0 million (2008: HK$2,643.7 million) which were financed by current liabilities of approximately HK$428.9 million (2008: HK$217.0 million), non-current liabilities of approximately HK$206.1 million (2008: HK$188.7 million), minority interests of approximately HK$176.6 million (2008: HK$164.1 million) and shareholders' equity of approximately HK$2,244.4 million (2008: HK$2,073.9 million).

As at 30 June 2009, the current assets of the Group amounted to approximately HK$604.0 million (2008: HK$887.1 million) comprising inventories of approximately HK$62.3 million (2008: HK$103.9 million), trade receivables of approximately HK$435.2 million (2008: HK$401.8 million), prepayments, deposits and other receivables of approximately HK$86.9 million (2008: HK$303.9 million), financial assets at fair value through profit or loss of approximately HK$7.2 million (2008: HK$21.3 million), cash and cash equivalents of approximately HK$12.4 million (2008: HK$56.2 million).

As at 30 June 2009, 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 1.4 (2008: 4.1), 1.3 (2008: 3.6), 20.8% (2008: 15.3%) and 28.3% (2008: 19.6%), respectively.

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

Significant investment held by the Company

As at 30 June 2009, the Company did not have any significant investments except the financial assets at fair value through profit or loss of approximately HK$7.2 million, the Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$9.3 million for the financial year.

Charges on the Group's assets

As at 30 June 2009, bank loans of approximately HK$103.0 million are secured by charges over the Group's certain fixed assets and prepaid land lease payments.

Contingent liabilities

As at 30 June 2009, 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 2009.

Number and Remuneration of Employees

As at 30 June 2009, the Group had 1,706 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.

As at 30 June 2009, there was approximately 220.9 million share options outstanding. The issue of the offer shares, in respect of the open offer announced on 18 June 2009, has adjusted the outstanding share options by approximately of 44.4 million share options. Subsequent to the financial year ended 30 June 2009, there were 205.0 million share options granted to senior management of the Hong Kong and PRC subsidiaries of the Company. As at the date of this report, approximately 470.3 million share options were outstanding. This comprises approximately 103.4 million share options with exercisable period up to 23 July 2010 at the exercise price of HK$0.485 per share, approximately 161.9 million share options with exercisable period up to 23 August 2010 at the exercise price of HK$0.35 per share and 205.0 million share options with exercisable period up to 20 August 2012 at the exercise price of HK$0.164 per share.

DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2009.

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 2009.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

For the year ended 30 June 2009, the Group has applied the principles of the Code on Corporate Governance Practices (the"CG Code") as set out in Appendix 14 to the Listing Rules and complied with the code provisions of the CG Code,

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
Chief Executive Officer

Hong Kong, 21 October 2009

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 nonexecutive directors of the Company are Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong, Mr. Tam Ching Ho and Dato' Dr. Wong Sin Just.