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China Zenith Chemical Group Limited

中國天化工集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 362)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

HIGHLIGHTS

Profit attributable to owners of the Company was amounted to approximately HK\$133.3 million, representing an increase to 309.5% when compared with the same item in last corresponding period.

Disregarding the effect of the employee share options benefits of approximately HK\$10.2 million, the adjusted profit attributable to owners of the Company was amounted to approximately HK\$143.5 million, representing an increase to 333.2% when compared with the same item in last corresponding period.

On 18 December 2009, the Company had announced to streamline the management and administration of the Company's PVC and its related Calcium Carbide business. In order to finance the operation and expansion of such business segment of the Company, the Company had been considering a possible spin-off of its PVC and related Calcium Carbide business by way of a separate listing of such business on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has engaged professionals to advise and assist in the possible spin-off. On 12 March 2010, the Company had submitted to the Stock Exchange a spin-off proposal pursuant to PN15 in relation to this proposed spin-off and the Company will provide an update as and when there is any significant further development on this matter.

The Board of Directors ("Board" or "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 2009 ("Period"). The results had been reviewed by the Company's audit committee ("Audit Committee").

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited six months ended 31 December	
	Note	2009 HK\$'000	2008 HK\$'000
Turnover	3	725,358	600,161
Cost of sales		(510,820)	(475,807)
Gross profit		214,538	124,354
Other income	5	29,680	15,535
Selling and distribution costs		(6,013)	(9,421)
Administrative expenses		(56,698)	(38,760)
Other operating expenses		(1,251)	(15,845)
Profit from operations		180,256	75,863
Finance costs		(3,197)	(2,977)
Profit before tax		177,059	72,886
Income tax expense	6	(17,881)	(15,338)
Profit for the Period	7	159,178	57,548
Attributable to:			
Owners of the Company		133,309	43,072
Non-controlling interests		25,869	14,476
		159,178	57,548
(Restated)			
EARNINGS PER SHARE	8		
– Basic		HK2.6 cents	HK1.0 cent
– Diluted		HK2.5 cents	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited six months ended 31 December	
	2009 HK\$'000	2008 HK\$'000
Profit for the Period	159,178	57,548
Other comprehensive income, net of tax:		
Exchange differences on translating foreign operations	6,174	(5,360)
Gain on property revaluation	1,128	–
Total comprehensive income for the Period	166,480	52,188
Attributable to:		
Owners of the Company	139,850	38,519
Non-controlling interests	26,630	13,669
	166,480	52,188

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 31 December 2009 HK\$'000	Audited 30 June 2009 HK\$'000
	Note		
Non-current assets			
Fixed assets		1,961,917	1,673,320
Prepaid land lease payments		542,529	546,428
Goodwill		123,589	123,589
Other intangible assets		104,018	107,032
Deferred tax assets		1,600	1,594
		2,733,653	2,451,963
Current assets			
Inventories		63,416	62,305
Trade receivables	9	523,723	435,241
Prepayments, deposits and other receivables		73,527	86,855
Financial assets at fair value through profit or loss		12,774	7,202
Bank and cash balances		17,095	12,388
		690,535	603,991
TOTAL ASSETS		3,424,188	3,055,954
Capital and reserves			
Issued share capital		56,113	37,409
Retained profits		1,105,110	971,801
Other reserves		1,434,544	1,235,198
Equity attributable to owners of the Company		2,595,767	2,244,408
Non-controlling interests		203,247	176,617
Total equity		2,799,014	2,421,025
Non-current liabilities			
Bank loans	10	44,344	45,416
Deferred tax liabilities		160,278	160,643
		204,622	206,059

		Unaudited 31 December 2009 HK\$'000	Audited 30 June 2009 HK\$'000
	<i>Note</i>		
Current liabilities			
Trade payables	11	47,913	43,821
Other payables and accruals		211,668	226,471
Due to a non-controlling shareholder of a subsidiary		66,124	82,124
Bank loans	10	80,545	57,606
Current tax liabilities		14,302	18,848
		420,552	428,870
Total liabilities		625,174	634,929
TOTAL EQUITY AND LIABILITIES		3,424,188	3,055,954
Net current assets		269,983	175,121
Total assets less current liabilities		3,003,636	2,627,084

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements have been 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 with the 2009 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the 2009 annual financial statements except as stated in note 2 below.

2. Adoption of New and Revised HKFRSs

In the current Period, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting period beginning on 1 July 2009. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current Period and prior years except as stated below.

(a) Presentation of Financial Statements

HKAS 1 (Revised) “Presentation of Financial Statements” affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement and statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. HKAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the period. HKAS 1 (Revised) has been applied retrospectively.

(b) Operating Segments

HKFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 “Segment Reporting” required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity’s ‘system of internal financial reporting to key management personnel’ serving as the starting point for the identification of such segments. The primary segments reported under HKAS 14 are the same as the segments reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in note 4 to the financial statements.

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

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. The Group has five reportable segments 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").

The accounting policies of the operating segments are the same as those described in the Group's financial statements for the year ended 30 June 2009. Segment profits or losses do not include dividend income, gain or loss on disposal of financial assets at fair value through profit or loss, fair value gains or losses on financial assets at fair value through profit or loss and corporate administrative expenses. Segment assets do not include goodwill, bank and cash balances, financial assets at fair value through profit or loss, deferred tax assets and corporate assets.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Information about reportable segment profit or loss and assets:

	Polyvinyl- chloride	Vinyl acetate	Heat and power	Unaudited Vitamin C, glucose and starch	Calcium carbide	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 31 December 2009						
Revenue from						
external customers	429,609	268,294	27,455	–	–	725,358
Intersegment revenue	641	5	38,887	–	–	39,533
Segment revenue	430,250	268,299	66,342	–	–	764,891
Segment profit/(loss)	98,707	73,105	22,705	(12,581)	(5,996)	175,940
As at 31 December 2009						
Segment assets	607,848	557,659	421,928	686,883	917,306	3,191,624

	Polyvinyl- chloride	Vinyl acetate	Heat and power	Unaudited Vitamin C, glucose and starch	Calcium carbide	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 31 December 2008						
Revenue from						
external customers	367,650	191,023	29,479	12,009	–	600,161
Intersegment revenue	270	1,253	6,760	–	–	8,283
Segment revenue	367,920	192,276	36,239	12,009	–	608,444
Segment profit/(loss)	68,336	39,241	(10,669)	(16,395)	(2,641)	77,872
As at 31 December 2008						
Segment assets	606,088	538,013	414,798	597,574	321,481	2,477,954

Reconciliation of reportable segment profit or loss:

	Unaudited six months ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Profit or loss		
Total profit or loss of reportable segments	175,940	77,872
Dividend income	69	446
Gain on disposal of financial assets at fair value through profit or loss	514	–
Fair value loss on financial assets at fair value through profit or loss	(342)	(12,804)
Employee share option benefits	(10,199)	–
Corporate administrative expenses	(6,804)	(7,966)
Consolidated profit for the Period	159,178	57,548

5. Other Income

	Unaudited six months ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Dividend income	69	446
Gain on disposal of financial assets at fair value through profit or loss	514	–
Government grants	27,446	12,582
Interest income	67	485
Sundry income	1,584	2,022
	29,680	15,535

6. Income Tax Expense

	Unaudited six months ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
Current tax – overseas Provision for the Period	18,564	15,338
Deferred tax	(683)	–
	17,881	15,338

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 (2008: Nil).

Tax charges 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.

7. Profit for the Period

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

	Unaudited six months ended 31 December 2009 HK\$'000	2008 HK\$'000
Depreciation	25,353	23,416
Amortisation of other intangible assets	3,053	3,053
Interest income	(67)	(485)
Allowance for receivables		
– Trade receivables	825	4,400
– Other receivables	1,704	–
Write off of fixed assets	1,317	2,384
Fair value loss on financial assets at fair value through profit or loss (held for trading)	342	12,804
Staff costs (including Directors' remuneration):		
Wages, salaries and benefits in kind	16,435	15,477
Employee share option benefits	10,199	–
Retirement benefits scheme contribution	2,826	2,488
Directors' remuneration	1,428	1,428

8. Earnings Per Share

Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the Period attributable to owners of the Company of approximately HK\$133,309,000 (2008: HK\$43,072,000) and the weighted average number of ordinary shares of 5,210,416,067 (2008: 4,105,852,490, as adjusted to reflect the open offer on 19 August 2009) in issue during the Period.

Diluted earnings per share

The calculation of diluted earnings per share attributable to owners of the Company is based on the profit for the Period attributable to owners of the Company of approximately HK\$133,309,000 and the weighted average number of ordinary shares of 5,238,819,486, being the weighted average number of ordinary shares of 5,210,416,067 in issue during the Period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 28,403,419 assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the Period.

There were no potential ordinary shares in issue during the six months ended 31 December 2008. No diluted earnings per share information is disclosed.

9. 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:

	Unaudited 31 December 2009 HK\$'000	Audited 30 June 2009 HK\$'000
Within 30 days	144,481	145,071
31 to 60 days	130,528	93,243
61 to 90 days	104,593	60,647
91 to 120 days	72,274	37,992
121 to 150 days	41,967	29,013
151 to 180 days	4,890	14,512
181 to 240 days	450	8,885
241 to 330 days	28	1,677
331 to 365 days	2,212	1,157
Over 365 days	22,300	43,044
	523,723	435,241

10. Bank Loans

The Group's bank loans are repayable as follows:

	Unaudited 31 December 2009 HK\$'000	Audited 30 June 2009 HK\$'000
Within one year	80,545	57,606
In the second year	2,181	2,158
In the third to fifth years inclusive	6,824	6,754
After five years	35,339	36,504
	124,889	103,022
Less: Amounts due for settlement within 12 months (shown under current liabilities)	(80,545)	(57,606)
	44,344	45,416

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	Unaudited 31 December 2009 HK\$'000	Audited 30 June 2009 HK\$'000
Hong Kong dollars	46,480	47,530
RMB	78,409	55,492
	124,889	103,022

Bank loans of approximately HK\$78,409,000 (30 June 2009: HK\$55,492,000) are arranged at fixed interest rates ranging from 5.841% to 10% (30 June 2009: 8.217%) p.a. and expose the Group to fair value interest rate risk. Bank loan of approximately HK\$46,480,000 (30 June 2009: HK\$47,530,000) is arranged at floating rate of 2.10% (30 June 2009: 2.10%) p.a., thus exposing the Group to cash flow interest rate risk. Bank loans are secured by the pledge of the Group's fixed assets and prepaid land lease payments.

11. 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:

	Unaudited 31 December 2009 HK\$'000	Audited 30 June 2009 HK\$'000
Within 30 days	18,084	10,035
31 to 60 days	8,108	14,216
61 to 90 days	7,307	4,424
91 to 120 days	852	3,626
121 to 365 days	7,672	5,495
Over 365 days	5,890	6,025
	47,913	43,821

12. Events After the Reporting Period

On 25 February 2010, Mr. Chan Yuen Tung, a substantial shareholder of the Company, entered into a share placing agreement to place 440,000,000 ordinary shares of HK\$0.01 each in the Company to independent third parties at a price of HK\$0.20 each. Mr. Chan Yuen Tung then subscribed for a total of 440,000,000 new shares of HK\$0.01 each in the Company at HK\$0.20 per share. The subscription was completed on 9 March 2010. The net proceeds of approximately HK\$84,034,000 was intended to be used as general working capital of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

On 25 February 2010, the Company entered into a warrant placing agreement to place 440,000,000 warrants in the Company to independent third parties at a warrant placing price of HK\$0.005 each. The warrant exercise price was HK\$0.285. The warrant placing was completed on 9 March 2010. The net proceeds of approximately HK\$2,167,000 from the warrant placing price was intended to be utilised by the Group as general working capital of the Group. The subscription rights attaching to the warrants may be exercised at any time during a period of 12 months commencing from the date immediately after the date of issue of the warrants. The warrant shares, when fully paid and allotted, will rank pari passu in all respects with the then existing issued ordinary shares of the Company.

13. Comparative Figures

The basic and diluted earnings per share for the six months ended 31 December 2008 had been adjusted for the effects of the open offer during the current Period.

INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

With the initial effect of the PRC government's stimulus measures and economic revitalisation policies, as well as the central government's determination to maintain a GDP growth of 8%, the sign of recovery of the PRC economy became more apparent starting from the second half of 2009. During the Period under review, the management reacted promptly to the changing market environment and was able to increase the production volume to meet the recovering demand from our downstream customers including: construction and building industries, manufacture of chemical fibers and emulsifiers, and paper-making industries. Moreover, the price of the key raw materials of the Group was not so volatile in the current financial Period comparing to that in year 2008.

For the six months ended 31 December 2009, turnover of the Group amounted to approximately HK\$725.4 million representing an increase of 20.9% compared with last corresponding period.

Profit attributable to owners of the Company was amounted to approximately HK\$133.3 million, representing an increase to 309.5% when compared with the same item in last corresponding period.

Disregarding the effect of the employee share options benefits of approximately HK\$10.2 million, the adjusted profit attributable to owners of the Company was amounted to approximately HK\$143.5 million, representing an increase to 333.2% when compared with the same item in last corresponding period.

During the financial Period under review, the increase in turnover was mainly the result of the increase in sales volume of the Polyvinyl-chloride ("PVC") and Vinyl Acetate segment and the decrease in average price of the key raw materials of our Group.

The Group's selling and distribution costs for the Period was approximately HK\$6.0 million representing a decrease of 36.2% compared with last corresponding period. The significant drop was due to the temporary suspension of production of glucose and starch.

Disregarding the effect of the employee share option benefits of approximately HK\$10.2 million, the Group's normal administrative expenses for the six months ended 31 December 2009 was approximately HK\$46.5 million representing an increase of HK\$7.7 million compared with last corresponding period. The significant increase was primarily due to the increase in government levy on use of land and the administrative expenses related to the starting of the construction phase of new plants in Heihe.

Business Review

Coal related chemical products division

Polyvinyl – chloride ("PVC")

During the Period, the PVC segment recorded a turnover from external customers of approximately HK\$429.6 million representing an increase of 16.9% over the corresponding period of the previous year. Segment profit of approximately HK\$98.7 million represented a significant increase of 44.4% over the corresponding period of the previous year. The increase in turnover is mainly due to the increase in sales volume of PVC. The increase in production volume helped the segment to attain better economies scales of production and lower the average cost of production.

Vinyl Acetate

During the Period, turnover from external customers was approximately HK\$268.3 million, representing an increase of 40.5% over the corresponding period of the previous year. Segment profit was approximately HK\$73.1 million, representing a significant increase of 86.3% over the corresponding period of the previous year. The volume growth, favorable changes in raw materials prices, and cost reduction from bulk purchase have all contributed to improvement in gross margin.

Calcium Carbide

The installation of production equipment for our own calcium carbide production facilities in Mudanjiang was nearly completed. The management has planned for the test run of these new production facilities to be commenced in the second quarter of 2010.

During the Period under review, calcium carbide segment has incurred segment loss of approximately HK\$6.0 million, representing an increase of 127.0% over the corresponding period of the previous year. The increased operating loss mainly represented the increase in amortisation charge of prepaid land lease payments and the administrative expenses incurred during the project construction phase.

Bio-chemical products division

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 commenced in May 2009. The test run of modified and refurbished production facilities of vitamin C was commenced in December 2009.

Certainly, it was not possible to avoid the fixed factory overhead to keep the machinery in working condition. Segment loss of approximately HK\$12.6 million was attained during the Period, representing a decrease of 23.3% over the corresponding period of the previous year. The drop in segment loss during the Period was mainly because no selling expense was incurred in the financial period under review.

Heat and Power division

During the Period, turnover from external customers was approximately HK\$27.5 million, representing a slight decrease of 6.9% over the corresponding period of the previous year.

The segment loss of approximately HK\$16.2 million (after elimination of intra-group sales of approximately HK\$38.9 million) was attained during the Period. The segment loss of the corresponding period of the previous year was approximately HK\$17.4 million (after elimination of intra-group sales of approximately HK\$6.8 million). The division managed to purchase coal with better quality from reputable suppliers.

Capital Structure, Liquidity and Financial Resources

Capital structure

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

Equity funding

The net proceeds raised by the open offer by issuing 1,870,443,912 offer shares announced on 18 June 2009 were approximately HK\$201 million. At the date of the announcement, the whole amount of the net proceeds raised by the open offer was fully utilised as working capital of the Group.

The net proceeds raised by the placing of 440,000,000 existing shares and subscription of 440,000,000 new shares of the Company by a substantial shareholder announced on 25 February 2010 was approximately HK\$84 million. As at the date of this announcement, a total of HK\$74 million was utilised by the Group as working capital of the Group.

The net proceeds raised by the placing of 440,000,000 warrants of the Company announced on 25 February 2010 to independent third parties at a warrant placing price of HK\$0.005. The warrant exercise price was HK\$0.285. The subscription rights attaching to the warrants may be exercised at any time during a period of 12 months commencing from the date immediately after the date of issue of the warrants. The warrant placing was completed on 9 March 2010. As at the date of the announcement, none of the warrants were exercised and the net proceeds of approximately HK\$2 million from the warrant placing were fully utilised by the Group as working capital of the Group.

On 18 December 2009, the Company had announced to streamline the management and administration of the Company's PVC and its related Calcium Carbide business. In order to finance the operation and expansion of such business segment of the Company, the Company had been considering a possible spin-off of its PVC and related Calcium Carbide business by way of a separate listing of such business on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has engaged professionals to advise and assist in the possible spin-off. On 12 March 2010, the Company had submitted to the Stock Exchange a spin-off proposal pursuant to PN15 in relation to this proposed spin-off and the Company will provide an update as and when there is any significant further development on this matter.

As at 31 December 2009, the Group had total assets of approximately HK\$3,424.2 million (30 June 2009: HK\$3,056.0 million) which were financed by current liabilities of approximately HK\$420.6 million (30 June 2009: HK\$428.9 million), non-current liabilities of approximately HK\$204.6 million (30 June 2009: HK\$206.1 million), non-controlling interests of approximately HK\$203.2 million (30 June 2009: HK\$176.6 million) and owners' equity of approximately HK\$2,595.8 million (30 June 2009: HK\$2,244.4 million).

As at 31 December 2009, the current assets of the Group amounted to approximately HK\$690.5 million (30 June 2009: HK\$604.0 million) comprising inventories of approximately HK\$63.4 million (30 June 2009: HK\$62.3 million), trade receivables of approximately HK\$523.7 million (30 June 2009: HK\$435.2 million), prepayments, deposits and other receivables of approximately HK\$73.5 million (30 June 2009: HK\$86.9 million), financial assets at fair value through profit and loss of approximately HK\$12.8 million (30 June 2009: 7.2 million), cash and cash equivalents of approximately HK\$17.1 million (30 June 2009: HK\$12.4 million).

As at 31 December 2009, 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/owners' equity) of the Group were approximately 1.6 (30 June 2009: 1.4), 1.5 (30 June 2009: 1.3), 18.3% (30 June 2009: 20.8%) and 24.1% (30 June 2009: 28.3%), respectively.

The financial health of the Group attains at a satisfactory status throughout the Period as indicated by the above figures.

Significant investment held by the Company

As at 31 December 2009, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK\$12.8 million. The Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK\$0.3 million for the Period.

Charges on the Group's assets

As at 31 December 2009, bank loan of approximately HK\$124.9 million is secured by charges over the Group's certain fixed assets and prepaid land lease payments.

Contingent liabilities

As at 31 December 2009, 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 exchange rate of RMB in term of Hong Kong dollars 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 2009.

Number and remuneration of Employees

As at 31 December 2009, the Group had 2,086 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 the Period under review, there were 205.0 million share options granted to senior management of the Hong Kong and PRC subsidiaries of the Company. As at 31 December 2009, there was approximately 470.3 million share options 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.

PROSPECT

Coal-related chemical products division

Production of calcium carbide in Mudanjiang

The test run of the newly built calcium carbide production facilities in Mudanjiang was re-scheduled to the second quarter of 2010 due to technical problem induced by the extremely cold weather condition in last winter. The production facilities are expected to operate at annual designed production capacities of 100,000 tons.

When the calcium carbide production facilities operate at designed capacities, all the output can then be consumed internally by the PVC production. It will further lower the overall cost of production of PVC by capturing the additional value from producing calcium carbide.

Construction of calcium carbide production facilities in Heihe

On the other hand, the first phase of construction of our own calcium carbide production facilities in Heihe has commenced in June 2009. For the first phase, the designed annual production capacities of calcium carbide are expected to be 100,000 tons. The Group has planed to develop vinyl acetate and its downstream chemical products in Heihe. Heihe City Local Government and the Electric Power Corporation of Heilongjiang Province have guaranteed that the calcium carbide production of the Group in Heihe will enjoy a lower electricity tariff for 10 years from 1 January 2008. It will be more cost effective for the Group to produce calcium carbide which consumes a large amount of electricity.

Bio-chemical products division

Production of Vitamin C in Mudanjiang

The first phase refurbishment of vitamin C production facilities has been completed shortly before the end of the reported financial Period.

Mudanjiang Gaoke Bio-Chem Co. Ltd. had successfully resumed and transferred the drug formula of the vitamin C from the Mudanjiang Pharmaceutical Group Ltd., the state-owned enterprise originally owned the registered drug formula of the vitamin C.

The State Food and Drug Administration, PRC had appointed specialists to authenticate the manufacturing process, quality control policy set, hygiene condition of our refurbished vitamin C production facilities. It is expected that the GMP certificate will be granted to Mudanjiang Gaoke Bio-Chem Co. Ltd. in the current year.

Recently, the vitamin C production facilities are being operated at annualised capacities of approximately 1,500 tons. It is expected that the refurbished vitamin C production facilities will be running at the designed capacity of 3,000 tons in the third quarter of 2010 and the contribution from the biochemical segment will be much enhanced in the coming financial period.

At the date of this announcement, the progress of the above-mentioned expansions is satisfactory. With the management continuing to resolve issues with a steady hand and fast response, coupled with the unselfish dedication of the technical workforce, the test runs of Mudanjiang calcium carbide and vitamin C production facilities will be successful in 2010.

The Board believes that as the PRC economy recovers, the benefits from the operation of a vertical product chain from calcium carbide to PVC in the Group's coal-related business and the improvements in the production of vitamin C in bio-chemical business will be enormous.

Heat and power division

The increase in production capacities of vinyl acetate, PVC, and calcium carbide will in turn provide an opportunity for the heat and power division to expand. Plans have been formulated to build another two sets of coal-powered generation facilities to house the increased aforesaid demand in early 2007. Provincial government approval has been obtained for such expansion.

The Group has started to construct the first set of coal-powered generation facilities as the first phase expansion in October 2007. In addition, application on the preferential tariff on electricity generated and supplied for new PVC and calcium carbide expansion project of the Group have been filed and local government approval had been obtained in early 2010. The Board is confident that the final detailed approval will be obtained when the first phase expansion is completed.

The aim of the expansion of our coal-powered generation facilities is to cover the demand of electricity consumed by the new calcium carbide production facilities.

At the date of this announcement, the progress of constructing the first coal-powered electricity generating facilities is satisfactory. The Group has liaised with banks in the PRC for long-term bank financing. In addition, the Group has renegotiated the payment schedules with the main contractor of the first set of coal-powered generation facilities. The subject expansion project is planned to be completed by phases according to the financial resources of the Group.

Future development

The Group will inevitably grow by developing and producing both vitamin C and calcium carbide. They will be the new milestones in the development of the Group. The Board is confident that both businesses will contribute to prosperous future and success of the Group and will benefit the shareholders as a whole.

To pursue continuous growth, the Group will make every effort to diversify its product mix, as well as enhance its capability in developing high value-added products and new applications through in-house research and development.

The vision of the Board is always ahead of the development of the chemical industries in Northeastern region of the PRC. The Group has focused on the development of coal-related chemical segment since 2007.

In May 2009, the PRC government imposed a more stringent entry requirement for coal-related chemical industries to avoid the problem of excess capacity. In particular, the approval of pure expansion of production capacity of certain coal-related projects by the PRC government will be stopped for three years. Such government policy will limit the future competition of the coal-related chemical market and in turn will benefit the existing manufacturers which are integrated vertically in the coal-related chemical industries.

In September 2009, the National Development and Reform Commission (“NDRC”) announced a new round of guidance for developing and reforming the industrial enterprises in the Northeastern part of China. The NDRC will speed up the development of Heilongjiang east coal and electricity chemical production base.

Looking forward, the Group will perform to its best endeavors to capture market opportunities followed from the favorable government policies and to exhibit the Group’s growth potential through suitable economy scale of production by expansion through vertical integration in the Northeastern region of the PRC.

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 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”) during the Period.

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 Mr. Chan Yuen Tung (executive Director), Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho (all being 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. Mr. Chan Yuen Tung was appointed as a member of Remuneration Committee to replace Ms. Chan Yuk Foebe with effect from 18 August 2009.

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 <http://www.irasia.com/listco/hk/chinazenith> in due course.

By order of the Board

Chan Yuk Foebe

Chief Executive Officer

Hong Kong, 29 March 2010

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' Dr. Wong Sin Just.