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 2010

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 2010 together with the comparative figures for the previous year as follows:

Consolidated Income Statement

for the year ended 30 June 2010

	Note	**2010 HK$'000**	2009 HK$'000
Turnover	*3*	**1,381,342**	1,095,614
Cost of sales		**(1,049,531)**	(832,637)
Gross profit		**331,811**	262,977
Other income	*4*	**110,333**	95,577
Selling and distribution costs		**(14,543)**	(13,970)
Administrative expenses		**(111,398)**	(78,768)
Other operating expenses		**(11,813)**	(16,020)
Profit from operations		**304,390**	249,796
Finance costs	*6*	**(6,325)**	(5,894)
Profit before tax		**298,065**	243,902
Income tax expense	*7*	**(35,089)**	(38,042)
Profit for the year	*8*	**262,976**	205,860
Attributable to:			
Owners of the Company		**217,618**	167,896
Non-controlling interests		**45,358**	37,964
		262,976	205,860
			(Restated)
Earnings per share			
– Basic	*10*	**HK3.88 cents**	HK3.74 cents
– Diluted	*10*	**HK3.85 cents**	HK3.74 cents

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2010

	2010	2009
	HK$'000	HK$'000
Profit for the year	**262,976**	205,860
Other comprehensive income after tax:		
Exchange differences on translating		
foreign operations	**28,510**	(1,772)
Gains on property revaluation	**734**	4,090
Other comprehensive income for the year,		
net of tax	**29,244**	2,318
Total comprehensive income for the year	**292,220**	208,178
Attributable to:		
Owners of the Company	**242,679**	170,549
Non-controlling interests	**49,541**	37,629
	292,220	208,178

Consolidated Statement of Financial Position

at 30 June 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Fixed assets		**2,310,890**	1,673,320
Prepaid land lease payments		**540,150**	546,428
Goodwill		**123,589**	123,589
Other intangible assets		**101,217**	107,032
Deferred tax assets		**1,065**	1,594
		3,076,911	2,451,963
Current assets			
Inventories		**103,592**	62,305
Trade receivables	*11*	**452,411**	435,241
Prepayments, deposits and other receivables		**105,259**	86,855
Financial assets at fair value through profit or loss		**7,102**	7,202
Bank and cash balances		**14,941**	12,388
		683,305	603,991
TOTAL ASSETS		**3,760,216**	3,055,954
Capital and reserves			
Share capital		**61,023**	37,409
Reserves		**2,732,438**	2,206,999
Equity attributable to owners of the Company		**2,793,461**	2,244,408
Non-controlling interests		**226,158**	176,617
Total equity		**3,019,619**	2,421,025

	Note	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Bank loans		**158,201**	45,416
Deferred tax liabilities		**155,715**	160,643
		313,916	206,059
Current liabilities			
Trade payables	*12*	**79,570**	43,821
Other payables and accruals		**204,370**	226,471
Due to a director		**10,000**	–
Due to a non-controlling shareholder of a subsidiary		**66,124**	82,124
Bank loans		**58,480**	57,606
Current tax liabilities		**8,137**	18,848
		426,681	428,870
Total liabilities		**740,597**	634,929
TOTAL EQUITY AND LIABILITIES		**3,760,216**	3,055,954
Net current assets		**256,624**	175,121
Total assets less current liabilities		**3,333,535**	2,627,084

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 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 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 and amounts reported for the current year 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 year. 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 marker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two set 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 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. OTHER INCOME

	Group	
	2010	2009
	HK$'000	HK$'000
Dividend income from listed investments	**70**	521
Gain on disposal of financial assets at fair value through profit or loss	**1,132**	856
Gain on disposal of fixed assets	**–**	9
Government grants (note)	**95,477**	89,796
Interest income	**87**	570
Reversal of revaluation deficit on buildings	**425**	1,371
Construction income of installation of pipe	**11,437**	857
Sundry income	**1,705**	1,597
	110,333	95,577

Note: Government grants for the year ended 30 June 2010 were received as incentive for capital expenditure and environmental protection, subsidy for operating costs and refund of value-added tax, business tax, income tax and land use tax. Government grants for the year ended 30 June 2009 were received as incentive for capital expenditure and environmental protection and refund of value-added tax, business tax and income tax. There are no unfulfilled conditions or contingencies attached to the grants.

5. SEGMENT INFORMATION

The Group has five reportable segments as follows:

Polyvinyl-chloride – manufacture and sale of polyvinyl-chloride;

Vinyl acetate – manufacture and sale of vinyl acetate;

Heat and power – generation and supply of heat and power;

Vitamin C, glucose and starch – manufacture and sale of vitamin C, glucose and starch; and

Calcium carbide – manufacture and sale of calcium carbide.

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

Segment profits or losses do not include fair value loss on financial assets at fair value through profit or loss, gain on disposal of financial assets at fair value through profit or loss, withholding tax on dividend income, dividend income from listed investments and corporate administrative expenses. Segment assets do not include goodwill, bank and cash balances, financial assets at fair value through profit or loss and corporate assets. Segment liabilities do not include bank loans, amount due to a director, amount due to a non-controlling shareholder of a subsidiary and other payables and accruals for general administrative use.

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, assets and liabilities:

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Total HK$'000
Year ended 30 June 2010						
Revenue from external customers	**739,526**	**543,145**	**59,120**	**39,551**	**–**	**1,381,342**
Intersegment revenue	**1,688**	**–**	**78,733**	**–**	**–**	**80,421**
Segment profit/(loss)	**141,088**	**131,588**	**19,782**	**8,665**	**(16,555)**	**284,568**
Interest revenue	**16**	**21**	**12**	**3**	**31**	**83**
Interest expense	**1,092**	**3,702**	**–**	**–**	**552**	**5,346**
Depreciation and amortisation	**15,516**	**12,655**	**13,903**	**24,608**	**6,000**	**72,682**
Other material items of income and expense:						
Government grants	**19,364**	**28,963**	**3,864**	**42,780**	**506**	**95,477**
Construction income of installation of pipe	**–**	**–**	**11,437**	**–**	**–**	**11,437**
Income tax expense/(credit)	**21,481**	**23,626**	**(5,113)**	**(3,745)**	**(1,160)**	**35,089**
Other material non-cash items:						
Allowance for receivables						
– trade receivables	**429**	**398**	**–**	**–**	**–**	**827**
– other receivables	**2,846**	**–**	**1,515**	**364**	**–**	**4,725**
Additions to segment non-current assets	**18,805**	**4,536**	**8,426**	**115,787**	**525,096**	**672,650**
As at 30 June 2010						
Segment assets	**595,162**	**519,797**	**412,309**	**776,416**	**1,225,424**	**3,529,108**
Segment liabilities	**12,383**	**39,927**	**124,150**	**200,475**	**68,001**	**444,936**

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Total HK$'000
Year ended 30 June 2009						
Revenue from external customers	615,208	390,245	73,713	16,448	–	1,095,614
Intersegment revenue	1,174	1,252	37,632	–	–	40,058
Segment profit/(loss)	132,680	103,972	32,083	(22,208)	(5,882)	240,645
Interest revenue	96	104	17	288	40	545
Interest expense	134	4,688	–	–	–	4,822
Depreciation and amortisation	14,112	12,526	11,982	16,901	2,931	58,452
Other material items of income and expense:						
Government grants	27,863	30,193	31,256	–	484	89,796
Construction income of installation of pipe	–	–	857	–	–	857
Income tax expense/(credit)	17,921	16,233	6,019	(13,115)	(942)	26,116
Other material non-cash items:						
Allowance for receivables						
– trade receivables	2,051	–	500	1,675	–	4,226
– other receivables	–	–	–	2,562	–	2,562
Additions to segment non-current assets	2,282	1,363	109,128	90,613	348,696	552,082
As at 30 June 2009						
Segment assets	574,120	485,850	436,629	653,687	684,299	2,834,585
Segment liabilities	22,939	40,202	112,904	164,180	108,774	448,999

Reconciliation of reportable segment profit or loss, assets and liabilities:

	2010	2009
	HK$'000	HK$'000
Profit or loss		
Total profit or loss of reportable segments	**284,568**	240,645
Fair value loss on financial assets at fair value through profit or loss	**(2,374)**	(9,250)
Gain on disposal of financial assets at fair value through profit or loss	**1,132**	856
Withholding tax on dividend income	**–**	(11,926)
Dividend income from listed investments	**70**	521
Corporate administrative expenses	**(20,420)**	(14,986)
Consolidated profit for the year	**262,976**	205,860
Assets		
Total assets of reportable segments	**3,529,108**	2,834,585
Goodwill	**123,589**	123,589
Bank and cash balances	**14,941**	12,388
Financial assets at fair value through profit or loss	**7,102**	7,202
Other assets	**85,476**	78,190
Consolidated total assets	**3,760,216**	3,055,954
Liabilities		
Total liabilities of reportable segments	**444,936**	448,999
Bank loans	**216,681**	103,022
Due to a director	**10,000**	–
Due to a non-controlling shareholder of a subsidiary	**66,124**	82,124
Other payables and accruals for general administrative use	**2,856**	784
Consolidated total liabilities	**740,597**	634,929

The Group's revenue is derived from customers based in the People's Republic of China (the "PRC") and accordingly, no geographical information is presented.

None of the Group's customers contributed 10% or more of the Group's revenue during the two years ended 30 June 2009 and 2010 and accordingly, no major customers information is presented.

6. FINANCE COSTS

	Group	
	2010	2009
	HK$'000	HK$'000
Interest on bank loans	**6,021**	5,239
Interest on discounted bills	**304**	655
	6,325	5,894

7. INCOME TAX EXPENSE

	Group	
	2010	2009
	HK$'000	HK$'000
Current tax – Overseas		
Provision for the year	**47,344**	39,745
(Over)/under-provision in prior years	**(6,040)**	40
Withholding tax on dividend income	**–**	11,926
	41,304	51,711
Deferred tax	**(6,215)**	(13,669)
	35,089	38,042

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 (2009: 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, 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., 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 i.e., from 1 January 2010 to 31 December 2012. No provision for PRC enterprise income tax has been made as Mudanjiang BD Power has no assessable profit for the year (2009: Nil).

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 i.e., from 1 January 2010 to 31 December 2012. No provision for PRC enterprise income tax has been made as Mudanjiang Gaoke has no assessable profit for the year (2009: Nil).

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 (2009: Nil).

Heihe LongJiang Chemical Company Limited ("Heihe LongJiang Chemical"), a subsidiary of the Company, is subject to PRC enterprise income tax at the rate of 25%. No provision for PRC enterprise income tax has been made as Heihe LongJiang Chemical has no assessable profit for the year (2009: Nil).

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 on future distribution.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate 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 2010

	Hong Kong		**The PRC**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit/(loss) before tax	**(23,722)**		**321,787**		**298,065**	
Tax at the statutory tax rate	**(3,914)**	**(16.5)**	**80,447**	**25.0**	**76,533**	**25.7**
Preferential statutory tax rate offered	**–**	**–**	**(42,811)**	**(13.3)**	**(42,811)**	**(14.4)**
Income tax exempted	**(12)**	**–**	**–**	**–**	**(12)**	**–**
Expenses not deductible for tax	**2,888**	**12.1**	**2,541**	**0.8**	**5,429**	**1.8**
Unrecognised temporary differences	**68**	**0.3**	**2,302**	**0.7**	**2,370**	**0.8**
Tax losses not recognised	**970**	**4.1**	**5,982**	**1.9**	**6,952**	**2.3**
Utilisation of unrecognised tax losses	**–**	**–**	**(7,332)**	**(2.3)**	**(7,332)**	**(2.4)**
Overprovision in prior years	**–**	**–**	**(6,040)**	**(1.9)**	**(6,040)**	**(2.0)**
Tax expense at the Group's effective tax rate	**–**	**–**	**35,089**	**10.9**	**35,089**	**11.8**

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 end of the reporting period , the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately HK$78,859,000 (2009: HK$45,500,000). 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.

8. PROFIT FOR THE YEAR

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

	2010	2009
	HK$'000	HK$'000
Auditor's remuneration	**930**	850
Allowance for receivables		
– trade receivables	**827**	4,226
– other receivables	**4,725**	2,562
Write off of fixed assets	**278**	2,401
Amortisation of other intangible assets (included in administrative expenses)	**5,973**	5,967
Cost of inventories sold	**1,049,531**	832,637
Depreciation	**58,436**	47,264
Minimum lease payments under operating leases for land and buildings	**12,238**	9,136
Fair value loss on financial assets at fair value through profit or loss (held for trading)	**2,374**	9,250
Staff costs (excluding directors' remuneration):		
Wages, salaries and benefits in kind	**34,337**	28,194
Employee share option benefits	**10,199**	–
Retirement benefits scheme contributions	**5,723**	5,298

Cost of inventories sold includes staff costs and depreciation of approximately HK$18,698,000 (2009: HK$11,686,000) and HK$34,864,000 (2009: HK$30,983,000), 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 2010 (2009: Nil).

10. 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 year attributable to owners of the Company of approximately HK$217,618,000 (2009: HK$167,896,000) and the weighted average number of ordinary shares of 5,605,315,824 (2009: 4,493,131,573, as adjusted to reflect the open offer on 19 August 2009) in issue during the year.

Diluted earnings per share

The calculation of diluted earnings per share attributable to owners of the Company for the year ended 30 June 2010 is based on the profit for the year ended 30 June 2010 attributable to owners of the Company of approximately HK$217,618,000 and the weighted average number of ordinary shares of 5,645,584,825, being the weighted average number of ordinary shares of 5,605,315,824, in issue during the year ended 30 June 2010 used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 40,269,001 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 2010.

There were no potential ordinary shares in issue during the year ended 30 June 2009.

11. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 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	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**95,224**	145,071
31 to 60 days	**104,308**	93,243
61 to 90 days	**84,775**	60,647
91 to 120 days	**100,732**	37,992
121 to 150 days	**60,349**	29,013
151 to 180 days	**612**	14,512
181 to 240 days	**697**	8,885
241 to 330 days	**1,512**	1,677
331 to 365 days	**860**	1,157
Over 365 days	**3,342**	43,044
	452,411	435,241

As at 30 June 2010, an allowance was made for estimated irrecoverable trade receivables of approximately HK$6,609,000 (2009: HK$6,146,000).

The reconciliation of allowance for trade receivables:

	Group	
	2010	2009
	HK$'000	HK$'000
At beginning of year	**6,146**	2,397
Allowance made for the year	**827**	4,226
Written off	**(399)**	(475)
Exchange differences	**35**	(2)
At end of year	**6,609**	6,146

As of 30 June 2010, trade receivables of approximately HK$9,198,000 (2009: HK$70,792,000) 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	
	2010	2009
	HK$'000	HK$'000
Up to 90 days	**461**	995
91 to 180 days	**2,326**	15,034
181 to 365 days	**3,069**	11,719
Over 365 days	**3,342**	43,044
	9,198	70,792

The Group's trade receivables are denominated in RMB.

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	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**21,326**	10,035
31 to 60 days	**11,668**	14,216
61 to 90 days	**6,707**	4,424
91 to 120 days	**7,185**	3,626
121 to 365 days	**22,886**	5,495
Over 365 days	**9,798**	6,025
	79,570	43,821

The Group's trade payables are denominated in RMB.

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.

According to the statistics issued by the National Bureau of Statistics of China early this year, the GDP growth of the People's Republic of China ("the **PRC**") for the year 2009 is 8.7%, the construction sector of the PRC recorded a growth of 18.2% during year 2009 when compared to that of the year 2008. This was the sign of recovery of our downstream customers. During the financial year 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 fibers and emulsifiers, and paper-making industries. However, the management was only able to transfer part of the increased cost of raw materials and cost of conversion to our customers. Thus, the margin of our products was squeezed when compared with that of the last financial year.

Coal-related chemical products division

*Polyrinyl-chloride ("**PVC**")*

During the financial year, the PVC segment recorded a revenue from external customers of approximately HK$739,526,000, representing an increase of 20.2% over that of approximately HK$615,208,000 last year. Segment profit of approximately HK$141,088,000 represented an increase of 6.3% over that of approximately HK$132,680,000 last year. The rise in turnover was mainly due to the increase in quantities being sold during the financial year. The increase in segment profit was primarily because the PVC raw materials sold was at a lower margin when compared with that of the last financial year, but this was compensated by an increase in the sales volume.

Vinyl acetate

During the financial year, revenue from external customers was approximately HK$543,145,000, representing an increase of 39.2% over that of approximately HK$390,245,000 last year. Segment profit was approximately HK$131,588,000, representing a decrease of 26.6% over that of approximately HK$103,972,000 last year. The boost in turnover was mainly due to the increase in quantities of liquid acetaldehyde, by-products of vinyl acetate being sold to nation-wide institutional customers during the financial year. The increase in segment profit was mainly because large orders for liquid acetaldehyde were received with specified concentration requested and urgent shipments.

Calcium carbide

The installation of production equipments for our own calcium carbide production facilities in Mudanjiang, the PRC, was completed near the end of the financial year under review. The test run of these new production facilities has been commenced in the third quarter of 2010.

During the year under review, calcium carbide segment has incurred segment loss of approximately HK$16,555,000, representing an increase of 181.5% over that of approximately HK$5,882,000 last year. The increased operating loss was mainly caused by the increase in amortisation charge of prepaid land lease payments and the administrative expenses incurred during the project construction phase for both of the new calcium carbide production facilities located in Mudanjiang and Heihe, the PRC.

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$59,120,000 (after elimination of intra-group sales of approximately HK$78,733,000), representing a decrease of 19.8% over that of approximately HK$73,713,000 (after elimination of intra group sales of approximately HK$37,632,000) last year.

Segment profit of approximately HK$19,782,000 was recorded during the year under review, representing a decrease of 38.3% over that of approximately HK$32,083,000 last year. There was a drop in the turnover because less heat capacity was sold to third party local manufacturing industries. On the other hand, more capacity of heat supply was consumed internally by the group companies in Mudanjiang.

Bio-chemical products division

During the financial year, the vitamin C, glucose and starch segment recorded a revenue from external customers of approximately HK$39,551,000, representing an increase of 140.5% over that of approximately HK$16,448,000 last year. Segment profit of approximately HK$8,665,000 was attained during the year under review while there was a segment loss of approximately HK$22,208,000 last year.

The newly refurbished production facilities for vitamin C started to make contribution to the segment. However, taking out the effect of the government grants of approximately HK$42,780,000, the current year's segment loss of HK$34,115,000 was attained. Nonetheless, the production of glucose and starch was still being suspended during the financial year under review. Inevitably, it was not possible to avoid the fixed factory overheads to keep the spare machinery in working condition.

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 had been started in the third quarter of 2010. The production facilities are expected to operate at the annual designed production capacities of 100,000 tons by the end of 2010 or early 2011, depending on the progress of our major contractors for the construction of the production facilities in resolving detailed technical problem encountered during the trial run.

When the calcium carbide production facilities operate at the 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 internally.

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, the PRC, has commenced in June 2009. The installation of equipment was almost completed as at the date of this announcement. For the first phase, the designed annual production capacities of calcium carbide are expected to be 100,000 tons. 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.

The Group has already formulated the detailed plans to develop new production capacities of vinyl acetate and poly-vinyl alcohol, downstream chemical products of vinyl acetate in Heihe. The projects are expected to be completed by phases. The timetable of such development depends on the sources of financing of the Group.

Bio-chemical products division

Production of Vitamin C in Mudanjiang

The first phase refurbishment of vitamin C production facilities was completed in December 2009. Mudanjiang Gaoke had successfully resumed and transferred the drug formula of the vitamin C from the Mudanjiang Pharmaceutical Group Ltd., the state-owned enterprise which 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. The Good Manufacturing Practice ("**GMP**") certificate has been granted to Mudanjiang Gaoke in May 2010. Since then, the product produced by Mudanjiang Gaoke can be sold at a higher market price with market recognised GMP.

The refurbished vitamin C production facilities has been running at the designed capacity of 3,000 tons since May 2010. It is anticipated that the contribution from the biochemical segment will be much enhanced in the coming financial year.

At the date of this announcement, the progress of the above-mentioned expansion is satisfactory. With the management continuing to resolve issues with a sound decision and fast response, coupled with the unselfish dedication of the technical workforce, the test runs of Mudanjiang calcium carbide will be successful in the coming financial year.

The Board strongly believes that the PRC economy will recover in the year 2011. Both the operation of a vertically integrated product chain from calcium carbide to both PVC and vinyl acetate in the coal-related chemical business and the production of vitamin C in bio-chemical business will undoubtedly bring benefit to the shareholders as a whole.

Capital Structure, Liquidity and Financial Resources

Capital structure

The Group maintained a stable financial position throughout the financial year. 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 this 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, the whole amount of the net proceeds raised by the placing and subscription of shares 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 this 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 Practice Note 15 of the Listing Rules 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 a result of weak market sentiment in June and July of 2010, and the delay in the completion schedule of our new Calcium Carbide plant, the management has been cautiously pushing ahead with the proposed spin-off of the group's PVC and related Calcium Carbide business, pending the publication of the consolidated financial reports of the Company for the full financial year ended 30 June 2010, the launch of the new Calcium Carbide plant that is currently undergoing trial runs and the confirmation of a better market condition for the spin-off.

During the year ended 30 June 2010, the Company raised funds by issuing 51,000,000 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$8 million. As at the date of this announcement, the whole amount was utilised as working capital of the Group.

Liquidity and Financial Ratios

As at 30 June 2010, the Group had total assets of approximately HK$3,760.2 million (2009: HK$3,056.0 million) which were financed by current liabilities of approximately HK$426.7 million (2009: HK$428.9 million), non-current liabilities of approximately HK$313.9 million (2009: HK$206.1 million), non-controlling interests of approximately HK$226.2 million (2009: HK$176.6 million) and shareholders' equity of approximately HK$2,793.5 million (2009: HK$2,244.4 million).

As at 30 June 2010, the current assets of the Group amounted to approximately HK$683.3 million (2009: HK$604.0 million) comprising inventories of approximately HK$103.6 million (2009: HK$62.3 million), trade receivables of approximately HK$452.4 million (2009: HK$435.2 million), prepayments, deposits and other receivables of approximately HK$105.3 million (2009: HK$86.9 million), financial assets at fair value through profit or loss of approximately HK$7.1 million (2009: HK$7.2 million), cash and cash equivalents of approximately HK$14.9 million (2009: HK$12.4 million). As at 30 June 2010, 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 1.6 (2009: 1.4), 1.3 (2009: 1.3), 19.7% (2009: 20.8%) and 26.5% (2009: 28.3%), 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 2010, the Company did not have any significant investments except the financial assets at fair value through profit or loss of approximately HK$7.1 million, the Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$2.4 million for the financial year.

Charges on the Group's assets

As at 30 June 2010, bank loans of approximately HK$216.7 million are secured by charges over the Group's certain fixed assets and prepaid land lease payments.

Contingent liabilities

As at 30 June 2010, 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 2010.

Number and Remuneration of Employees

As at 30 June 2010, the Group had 2,121 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 year under review, there were 205 million share options granted to senior management of the Hong Kong and PRC subsidiaries of the Company, out of which 51 million share options were exercised up to 30 June 2010. As at 30 June 2010, there were approximately 419.3 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 154.0 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 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed 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 2010.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

For the year ended 30 June 2010, 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 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 Yuk Foebe
Chief Executive Officer

Hong Kong, 28 September 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' Wong Sin Just.