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 2011

HIGHLIGHTS

Loss attributable to owners of the Company amounted to approximately HK$184.3 million.

Turnover of the Group amounted to approximately HK$98.5 million, representing a decrease of 87.7% when compared with that of the last corresponding period.

The Board of Directors (the "**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 2011 (the "**Period**"). The results had been reviewed by the Company's audit committee ("**Audit Committee**").

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) Six months ended 31 December	
		2011	2010
	Note	***HK$'000***	*HK$'000*
Turnover	*3*	**98,489**	798,300
Cost of sales		**(93,938)**	(621,746)
Gross profit		**4,551**	176,554
Other income	*5*	**6,556**	26,672
Selling and distribution costs		**(5,551)**	(7,923)
Administrative expenses		**(49,288)**	(51,878)
Other operating expenses		**(148,377)**	(127)
(Loss)/profit from operations		**(192,109)**	143,298
Finance costs		**(1,908)**	(7,810)
(Loss)/profit before tax		**(194,017)**	135,488
Income tax credit/(expense)	*6*	**1,576**	(19,846)
(Loss)/profit for the Period	*7*	**(192,441)**	115,642
Attributable to:			
Owners of the Company		**(184,308)**	103,603
Non-controlling interests		**(8,133)**	12,039
		(192,441)	115,642
			(Restated)
(LOSS)/EARNINGS PER SHARE	*8*		
– Basic		**HK(24.72) cents**	HK16.69 cents
– Diluted		**HK(24.72) cents**	HK16.65 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
(Loss)/profit for the Period	**(192,441)**	115,642
Other comprehensive income:		
Exchange differences on translating foreign operations	**61,645**	64,531
Gains on property revaluation	**–**	245
Other comprehensive income for the Period, net of tax	**61,645**	64,776
Total comprehensive (loss)/income for the Period	**(130,796)**	180,418
Attributable to:		
Owners of the Company	**(129,575)**	158,375
Non-controlling interests	**(1,221)**	22,043
	(130,796)	180,418

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	(Unaudited) 31 December 2011 HK$'000	(Audited) 30 June 2011 HK$'000
Non-current assets			
Fixed assets		**3,112,546**	2,882,586
Land held under finance leases		**68,835**	69,176
Prepaid land lease payments		**478,826**	475,195
Goodwill		**37,904**	102,107
Other intangible assets		**92,714**	95,629
		3,790,825	3,624,693
Current assets			
Inventories		**90,438**	110,991
Trade receivables	*9*	**262,116**	438,601
Other loan receivable		**–**	10,000
Prepayments, deposits and other receivables		**98,571**	141,106
Financial assets at fair value through profit or loss		**37,578**	49,941
Current tax assets		**991**	967
Bank and cash balances		**24,152**	74,909
		513,846	826,515
TOTAL ASSETS		**4,304,671**	4,451,208
Capital and reserves			
Share capital		**74,563**	74,563
Retained profits		**1,076,156**	1,287,048
Other reserves		**1,967,869**	1,913,136
Equity attributable to owners of the Company		**3,118,588**	3,274,747
Non-controlling interests		**248,579**	262,546
Total equity		**3,367,167**	3,537,293
Non-current liabilities			
Bank loans	*10*	**39,938**	41,055
Deferred tax liabilities		**161,493**	162,734
		201,431	203,789

	Note	(Unaudited) 31 December 2011 HK$'000	(Audited) 30 June 2011 HK$'000
Current liabilities			
Trade payables	*11*	**54,564**	79,342
Other payables and accruals		**339,671**	257,640
Due to a non-controlling shareholder of a subsidiary		**43,453**	66,124
Bank loans	*10*	**298,385**	297,183
Current tax liabilities		**–**	9,837
		736,073	710,126
Total liabilities		**937,504**	913,915
TOTAL EQUITY AND LIABILITIES		**4,304,671**	4,451,208
Net current (liabilities)/assets		**(222,227)**	116,389
Total assets less current liabilities		**3,568,598**	3,741,082

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 31 December 2011

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 disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the Period, the Group incurred a loss of approximately HK$192,441,000 and had net current liabilities of approximately HK$222,227,000 as at 31 December 2011.

In preparing the Interim Financial Statements, the directors have given careful consideration to the future liquidity and financial position of the Group in light of the conditions described in the preceding paragraph. These conditions indicate the existence of uncertainty that may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The directors are currently implementing stringent cost control measures over administrative and other operating expenses to improve the operating and financial position of the Group. Meanwhile, the applications to obtain new banking facilities had been made to various banks to refinance the loan due in year 2012.

In the opinion of the directors, the Group has been undergoing negotiation with various banks for refinancing exercise and new funds to strengthen the Group's financial position. The Group will have sufficient cash resources to satisfy its future working capital and other financial commitments. The directors are of the opinion that the above measures will be successfully implemented. Accordingly, the directors are of the view that it is appropriate to prepare the financial statements on a going concern basis.

These condensed consolidated financial statements should be read in conjunction with the 2011 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 2011 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 2011. HKFRSs comprise Hong Kong Financial Reporting Standards; 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.

Related Party Disclosures

HKAS 24 (Revised) "Related Party Disclosures" revises the definition of a related party and provides a partial exemption of disclosing related party transactions for government-related entities.

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

HKAS 24 (Revised) exempts an entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with

– a government that has control, joint control or significant influence over the entity; and

– another entity that is a related party because the same government has control, joint control or significant influence over both entities.

The entity that applies the exemption is required to disclose the followings:

– the name of the government and the nature of its relationship with the entity (i.e. control, joint control or significant influence); and

– the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

  i. the nature and amount of each individually significant transaction; and

  ii. for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

HKAS 24 (Revised) has been applied retrospectively and did not result in any significant changes in the consolidated amounts disclosed in 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. 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 2011 annual financial statements. Segment profits or losses do not include dividend income from listed investments, fair value gains or losses on financial assets at fair value through profit or loss, gain on disposal of 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 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:

			(Unaudited)			
	Polyvinyl-chloride	**Vinyl acetate**	**Heat and power**	**Vitamin C, glucose and starch**	**Calcium carbide**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 31 December 2011						
Revenue from external customers	12,517	20,470	44,391	21,111	–	98,489
Intersegment revenue	–	–	1,903	–	–	1,903
Segment loss	(24,298)	(16,871)	(14,276)	(23,805)	(32,324)	(111,574)
As at 31 December 2011						
Segment assets	502,024	391,613	453,644	751,567	2,025,972	4,124,820

			(Unaudited)			
	Polyvinyl-chloride	Vinyl acetate	Heat and power	Vitamin C, glucose and starch	Calcium carbide	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 31 December 2010						
Revenue from external customers	412,857	272,126	27,904	80,698	4,715	798,300
Intersegment revenue	564	4	50,345	–	102,125	153,038
Segment profit/(loss)	71,120	44,797	1,196	12,614	(5,100)	124,627
As at 31 December 2010						
Segment assets	635,695	515,598	400,689	760,348	1,693,314	4,005,644

Reconciliation of reportable segment profit or loss:

	(Unaudited) Six months ended 31 December 2011 HK$'000	2010 HK$'000
Profit or loss		
Total profit or loss of reportable segments	**(111,574)**	124,627
Impairment of goodwill	**(64,203)**	–
Dividend income	**720**	–
(Loss)/gain on disposal of financial assets at fair value through profit or loss	**(195)**	262
Fair value (loss)/gain on financial assets at fair value through profit or loss	**(9,791)**	69
Corporate administrative expenses	**(7,398)**	(9,316)
Consolidated (loss)/profit for the Period	**(192,441)**	115,642

5. OTHER INCOME

	(Unaudited) Six months ended 31 December 2011 HK$'000	2010 HK$'000
Dividend income from listed investments	**720**	–
Gain on disposal of financial assets at fair value through profit or loss	**–**	262
Gain on disposal of fixed assets	**150**	–
Government grants	**–**	24,701
Interest income	**214**	60
Sundry income	**5,472**	1,649
	6,556	26,672

6. INCOME TAX (CREDIT)/EXPENSE

	(Unaudited) Six months ended 31 December 2011 HK$'000	2010 HK$'000
Current tax – Overseas		
Provision for the Period	**–**	20,434
Deferred tax	**(1,576)**	(588)
	(1,576)	19,846

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits in Hong Kong during the Period (2010: 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. (LOSS)/PROFIT FOR THE PERIOD

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

	(Unaudited) Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Depreciation	**52,976**	42,297
Amortisation of other intangible assets	**3,373**	3,124
Factory overhead incurred during suspension of production *(note)*	**73,103**	–
Impairment of goodwill	**64,203**	–
Interest income	**(214)**	(60)
Gain on disposal of fixed assets	**(150)**	–
Allowance for receivables		
– Trade receivables	**2,652**	86
Fair value loss/(gain) on financial assets at fair value through profit or loss	**9,791**	(69)
(Loss)/gain on disposal of financial assets at fair value through profit or loss	**(195)**	262
Operating lease rental expenses	**1,094**	1,085
Staff costs (including Directors' remuneration):		
Wages, salaries and benefits in kind	**12,309**	19,792
Retirement benefits scheme contributions	**3,009**	3,622
Directors' remuneration	**1,199**	1,289

Note: Factory overhead incurred during suspension of production was resulted from an industrial accident which occurred in the calcium carbide production facilities of Mudanjiang Daytech Chemical Limited. Detailed explanation is included in Management Discussion and Analysis.

8. LOSS EARNINGS PER SHARE

Basic loss earnings per share

The calculation of basic loss earnings per share attributable to owners of the Company is based on the loss for the Period attributable to owners of the Company of approximately HK$184,308,000 (2010: profit of HK$103,603,000) and the weighted average number of ordinary shares of 745,633,173 (2010: 620,885,347, as adjusted to reflect the share consolidation on 20 June 2011) in issue during the Period.

Diluted loss earnings per share

The calculation of diluted loss earnings per share attributable to owners of the Company is based on the loss for the Period attributable to owners of the Company of approximately HK$184,308,000 (2010: profit of HK$103,603,000) and the weighted average number of ordinary shares of 745,633,173 (2010: 622,232,751, as adjusted to reflect the share consolidation on 20 June 2011), being the weighted average number of ordinary shares of 745,633,173 (2010: 620,885,347, as adjusted to reflect the share consolidation on 20 June 2011) in issue during the Period used in the basic loss earnings per share calculation plus the weighted average number of ordinary shares of nil (2010: 1,347,404, as adjusted to reflect the share consolidation on 20 June 2011) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the Period.

9. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 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)	(Audited)
	31 December	30 June
	2011	2011
	HK$'000	*HK$'000*
Within 30 days	**7,338**	53,567
31 to 60 days	**2,547**	117,408
61 to 90 days	**3,600**	113,574
91 to 120 days	**12,562**	115,661
121 to 150 days	**16,650**	20,025
151 to 180 days	**8,290**	7,650
181 to 240 days	**151,603**	7,287
241 to 330 days	**57,261**	256
331 to 365 days	**139**	37
Over 365 days	**2,126**	3,136
	262,116	438,601

10. BANK LOANS

The Group's bank loans are repayable as follows:

	(Unaudited)	(Audited)
	31 December	30 June
	2011	2011
	HK$'000	*HK$'000*
Term loans subject to a repayment on demand clause	**246,800**	240,800
Within one year	**51,585**	56,383
In the second year	**2,347**	2,252
In the third to fifth years inclusive	**6,858**	7,042
After five years	**30,733**	31,761
	338,323	338,238
Less: Amounts due for settlement within 12 months (shown under current liabilities)	**(298,385)**	(297,183)
	39,938	41,055

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

	(Unaudited) **31 December** **2011** ***HK$'000***	(Audited) 30 June 2011 *HK$'000*
Hong Kong dollars	**42,163**	43,258
Renminbi	**296,160**	294,980
	338,323	338,238

Bank loans of approximately HK$49,360,000 (30 June 2011: HK$54,180,000) are arranged at fixed interest rate of 5.841% (30 June 2011: 5.841%) per annum and expose the Group to fair value interest rate risk. Bank loans of approximately HK$288,963,000 (30 June 2011: HK$284,058,000) are arranged at floating rate of 2.10% to 6.65% (30 June 2011: 2.10% to 6.65%) per annum, thus exposing the Group to cash flow interest rate risk. Bank loans are secured by the pledge of the Group's fixed assets, land held under finance leases 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** **2011** ***HK$'000***	(Audited) 30 June 2011 *HK$'000*
Within 30 days	**14,476**	19,194
31 to 60 days	**2,966**	21,027
61 to 90 days	**1,008**	843
91 to 120 days	**1,295**	5,017
121 to 365 days	**21,798**	22,854
Over 365 days	**13,021**	10,407
	54,564	79,342

INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

During the financial period under review (the "Period"), the Group faced a challenging operating environment resulting from tightened national monetary policies adopted by central government of the People's Republic of China (the "PRC"). These had caused tremendous pressure to the operating environment of manufacturing industry. Moreover, the management had tried the best to cope with the price hikes of major raw materials, for example, coal which is used for the operation of power generating facilities, and the increase in cost of conversion, such as cost of electricity consumed for the manufacturing processes for all bio-chemical products.

The increase in cost of production of the Group was hardly passed to downstream customers, and therefore, the margins of our chemical products had been further squeezed when compared with that of the last financial period.

For the six months ended 31 December 2011, turnover of the Group amounted to approximately HK$98.5 million, representing a decrease of 87.7% when compared with that of the last corresponding period.

Loss attributable to owners of the Company amounted to approximately HK$184.3 million, representing a decrease of 277.9% compared with the profit attributable to owners of the Company amounted to approximately HK$103.6 million of the last corresponding period.

During the financial period under review, the decrease in turnover was mainly the result of the suspension of the production of the coal-related chemical products in the aftermath of an industrial accident which occurred in the calcium carbide production facilities of Mudanjiang Daytech Chemical Limited ("Mudanjiang Daytech"), a wholly owned subsidiary of the Company, in May 2011. No production activities for coal-related chemical products were recorded in the Period.

The segment loss of approximately HK$111.6 million of the Group was attained during the Period while there was a segment profit of approximately HK$124.6 million for the last financial period. The segment loss was primarily the result of approximately HK$73.5 million and approximately HK$23.4 million in the segment loss made by the coal related chemical products division and the bio-chemical products respectively.

The Group's selling and distribution costs for the Period was approximately HK$5.6 million, representing a decrease of 29.9% when compared with that of the last corresponding period. The decrease in selling and distribution costs was resulted from the decrease in turnover during the period.

The Group's administrative expenses for the Period was approximately HK$49.3 million, representing a decrease of 5.0% when compared with that of last corresponding period. The decrease was mainly due to the tighter control implemented of the Group's general administrative expenditure.

Excluding the effect of impairment of goodwill of approximately HK$64.2 million, factory overhead during the suspension of the production of the coal-related chemical products amounted approximately HK$73.1 million and the fair value loss on financial assets at fair value through profit or loss approximately HK$9.8 million, the Group's other operating expenses for the six months ended 31 December 2011 was approximately HK$1.3 million, representing an increase of HK$1.1 million when compared with that of the last corresponding period. The increase was principally due to one-off expenditure incurred during the Period of the suspension of the production of the coal-related chemical products.

Business Review

Coal-related chemical products division

Polyvinyl – chloride ("PVC")

During the Period, the PVC segment recorded a turnover of approximately HK$12.5 million, from external customers, representing a decrease of 97.0% over the corresponding period of the previous year. Segment loss of approximately HK$24.3 million was attained during the Period while there was a segment profit of approximately HK$71.1 million for the last financial period.

The decrease in turnover was mainly the result of a substantial decrease in the sales volume of PVC. The production of PVC was interrupted since the production of calcium carbide was suspended after May 2011. The decrease in segment profit was mainly due to the decrease in the sales volume of PVC and also the fact that there was a drop in selling price during the Period for the sale of inventory produced before 30 May 2011.

Vinyl Acetate

During the Period, turnover from external customers was approximately HK$20.5 million, representing a decrease of 92.5% over that of the corresponding period of the previous year. Segment loss of approximately HK$16.9 million was attained during the Period while there was a segment profit of approximately HK$44.8 million for the last financial period.

The significant decrease in the gross profit margin was mainly the result of the considerable drop in the sales orders after the suspension of production of calcium carbide. To cope with the specific orders from nation-wide institutional customers, the manufacturing arm maintained minimum sales order operation during the financial period under review.

Calcium carbide

The production of our own calcium carbide production facilities in Mudanjiang, the PRC, was suspended after 30 May 2011 due to the industrial accident.

During the Period, no turnover was recorded. Calcium carbide segment has incurred segment loss of approximately HK$32.3 million, representing an increase of 533.8% over that of the corresponding period of the previous year. The increase in the segment loss was principally because both of the factory overhead cost for suspension of calcium carbide production facilities in Mudanjiang amounted approximately HK$25.7 million and courses for preparation and training of work force to operate the production facilities in Heihe amounted approximately HK$5.0 million which were still in the construction phase were recorded during the Period.

Bio-chemical products division

During the financial period under review, the vitamin C segment recorded revenue of approximately HK$21.1 million from external customers, representing a decrease of 73.8% over that of the corresponding period of the previous year. Segment loss of approximately HK$23.8 million was attained during the financial period under review while there was a segment profit of approximately HK$12.6 million for the last financial period.

During the Period, the market selling price of vitamin C dropped. This caused the revenue contribution unable to cover the cost of production. Our production was seriously affected during the Period. The management decided to temporarily shut down the production of vitamin C from last October.

Heat and Power division

During the Period, turnover from external customers was approximately HK$44.4 million, representing an increase of 59.1% over the corresponding period of the previous year.

The segment loss of approximately HK$14.3 million (after elimination of intra-group sales of approximately HK$1.9 million) was attained during the Period. The segment profit of the corresponding period of the previous year was approximately HK$1.2 million (after elimination of intra-group sales of approximately HK$50.3 million).

The significant drop in the segment profit was primarily the result of the increase to the historical peak in the price of coal, the major raw materials consumed for the electricity and steam production during the Period.

Capital Structure, Liquidity and Financial Resources

Capital structure

The Group maintained a tight financial position during the Period. The Group financed its operations and business development with internally generated resources, equity funding and non-equity funding.

Equity funding

As at 31 December 2011, the Group had total assets of approximately HK$4,304.7 million (30 June 2011: HK$4,451.2 million) which were financed by current liabilities of approximately HK$736.1 million (30 June 2011: HK$710.1 million), non-current liabilities of approximately HK$201.4 million (30 June 2011: HK$203.8 million), non-controlling interests of approximately HK$248.5 million (30 June 2011: HK$262.6 million) and owners' equity of approximately HK$3,118.5 million (30 June 2011: HK$3,274.7 million).

As at 31 December 2011, the current assets of the Group amounted to approximately HK$513.8 million (30 June 2011: HK$826.5 million) mainly comprising inventories of approximately HK$90.4 million (30 June 2011: HK$111.0 million), trade receivables of approximately HK$262.1 million (30 June 2011: HK$438.6 million), prepayments, deposits and other receivables of approximately HK$98.5 million (30 June 2011: HK$141.1 million), financial assets at fair value through profit and loss of approximately HK$37.6 million (30 June 2011: 49.9 million), cash and cash equivalents of approximately HK$24.2 million (30 June 2011: HK$74.9 million).

Non-equity funding

As at 31 December 2011, the bank loans of the Group amounted to approximately HK$338.3 million (30 June 2011: HK$338.2 million). Of approximately HK$51.6 million (30 June 2011: HK$56.3 million) which was repayable with one year, HK$2.2 million was denominated in Hong Kong Dollar and HK$49.4 million was denominated in Renminbi (30 June 2011: HK$2.2 million was denominated in Hong Kong Dollar and HK$54.1 million was denominated in Renminbi). The bank loans carried interest at floating or fixed rate. Included in term loans subject to a repayment on demand clause, there was amounted approximately HK$154.3 million, among other things, will fall due after year 2012.

As at 31 December 2011, 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 0.7 (30 June 2011: 1.2), 0.6 (30 June 2011: 1.0), 21.9% (30 June 2011: 20.5%) and 30.7% (30 June 2011: 27.9%), respectively.

The Group had been undergoing negotiation with various banks to refinance the bank loan for the Heihe calcium carbide construction project loan due by the end of the first quarter of 2012 and seeking new funds to strengthen the financial position of the Group. The Group may also consider other means of financing to meet the due debt, the expected capital expenditure to complete the first phase of calcium carbide production facilities and the related work capital required for the expansion in Heihe. The management is confident that the calcium carbide production in Heihe will be successfully launched in third quarter of 2012.

Significant investment held by the Company

As at 31 December 2011, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK$37.6 million. The Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$9.8 million for the Period.

Charges on the Group's assets

As at 31 December 2011, bank loans of approximately HK$338.3 million were secured by charges over the Group's certain fixed assets, land held under finance leases and prepaid land lease payments.

Contingent liabilities

As at 31 December 2011, the Group did not have any significant contingent liabilities.

Foreign Exchange Exposure

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi, which are the functional currencies of the principal operating entities of the Group. 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 2011.

Number and remuneration of Employees

As at 31 December 2011, the Group had 1,893 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, no share options were granted to senior management of the Hong Kong and PRC subsidiaries of the Company. As at 31 December 2011, there were approximately 18.8 million share options outstanding. This comprises approximately 12.5 million share options with exercisable period up to 3 April 2013 at the exercise price of HK$1.53 per share and 6.3 million share options with exercisable period up to 11 May 2013 at the exercise price of HK$1.54 per share.

PROSPECT

Coal-related chemical products division

Production of calcium carbide in Mudanjiang

Our production of calcium carbide in Mudanjiang has been suspended in the aftermath of an industrial accident which occurred in the calcium carbide production facilities of Mudanjiang Daytech Chemical Limited ("Mudanjiang Daytech"), a wholly owned subsidiary of the Company, in May 2011.

Aiming at further enhancement of work safety and improvement on work efficiency for all of production facilities, the increase in the cost of repairs and maintenance for production recorded in the Period was substantial.

However, the Group is confident that when Mudanjiang Daytech resumes its normal production in April 2012, the operation of vertically integrated product chain from calcium carbide to PVC and vinyl acetate will improve the results and make better contribution to the Group. To pursuit higher profit margin, the PVC division has internally researched to produce other specific type of PVC materials, e.g. HPVC; Extinction PVC; and PVC copolymerized by vinyl chloride and vinyl acetate etc.. It is scheduled that HPVC, or the first new material will be launched by July 2012.

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 and the trial run production is scheduled to take place in the second half of 2012. For the first phase, the designed annual production capacity of calcium carbide is 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.

According to the financial resources available to the Group, the Group will consider carefully to further increase the production capacities of calcium carbide to meet the increased demand in the Northeastern region of the PRC. The management board is also confident that the new calcium carbide production business in Heihe will contribute to a prosperous future and success of the Group in future financial years and will benefit the shareholders as a whole.

Bio-chemical products division

Production of Vitamin C in Mudanjiang

The management will closely monitor the market price of vitamin C and capture the best time to resume production of vitamin C. Moreover, the management will actively looking for suitable business partners to explore the other means to make use of the idle production facilities for the Bio-chemical products of the Group.

Heat and power division

The Group has started to construct the first set of coal-power generation facilities as the first phase expansion in October 2007. In addition, application on the preferential tariff on electricity generated and supplied for the new PVC and calcium carbide expansion project in Mudanjiang have been filed and local government approval had been obtained in early 2010. To achieve better operating efficiency, the local management is actively seeking to make sure the preferential tariff on electricity generated and supplied for the new PVC and calcium carbide expansion policy will be approved as quickly as possible.

The local management had submitted the application for increase in tariff of heat or steam to cope with the significant increase in the price of coal for generation of electricity and heat. Moreover, the management will always explore methods to reduce energy consumption for production of heat and electricity.

Future development

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

The vision of the Board is always ahead of the development of the chemical raw materials industries in the 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 PRC government had stop approving pure expansion of production capacity of certain coal-related projects which did not consider recycling materials and without a green production method for three years. Such a government policy would limit the future competition of the coal-related chemical products market and in turn would benefit the existing manufacturers like us which were integrated vertically in the coal-related chemical production.

Looking forward, the Group will constantly try to capture new market opportunities followed from the favourable government policies. The management will attempt to exhibit the Group's growth potential through suitable economy of scale in its production by speeding up the development of fully vertically integrated coal-related chemical production in the Northeastern region of the PRC.

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 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 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 three independent non-executive Directors of the Company, namely, Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Wong Sin Lai. 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 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. Peng Zhanrong (executive Director), Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Wong Sin Lai (all being independent non-executive Directors), who are responsible for advising the Board on the remuneration policy and framework for all remuneration of the Directors and senior management of the Company, as well as reviewing and determining the remuneration packages of Directors and senior management with reference to the Company's objectives from time to time.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON COMPANY WEBSITE

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

By order of the Board
Chan Yuk Foebe
Chairman and Chief Executive Officer

Hong Kong, 29 February 2012

As at the date of this announcement, the executive directors of the Company are 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. Tam Ching Ho, Dato' Wong Sin Just and Mr. Wong Sin Lai.