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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)

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF BETTER LION HOLDINGS LIMITED

Financial adviser to the Company



VC CAPITAL LIMITED

滙盈融資有限公司

The Board announces that on 8 April 2008, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement with the Vendor, pursuant to which the Purchaser has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the entire issued share capital of Better Lion. Currently, Better Lion owns 40% equity interest in the WFOE. Upon completion of the Acquisition, the Group will indirectly own 100% equity interest in the WFOE.

The Acquisition constitutes a discloseable and connected transaction of the Company under Rules 14.08 and 14A.16(5) of the Listing Rules and will be subject to and conditional on, among other things, the approval of the independent Shareholders by way of poll at the EGM. A director of the Vendor who holds shares of the Company as at the date of this announcement will be required to abstain from voting on the resolution to be proposed at the EGM to approve the Acquisition.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Ma Wing Yun, Bryan, Mr. Yau Chung Hong, Mr. Tam Ching Ho and Dato' Wong Sin Just has been established to advise the independent Shareholders on whether the terms of the Share Purchase Agreement are fair and reasonable and in the interests of the Shareholders as a whole. The Company will appoint an independent financial adviser to advise the Independent Board Committee and the independent Shareholders on the terms of the Share Purchase Agreement and the transactions contemplated thereunder. A circular containing, among other things, details of the Share Purchase Agreement and the Acquisition will be despatched to the Shareholders as soon as practicable.

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SHARE PURCHASE AGREEMENT

Parties

Vendor : Kenelly Group Limited, a connected person of the Company

Purchaser : Better Day Bio-Chem Technology Ltd., an indirect wholly-owned subsidiary of the Company

Date

8 April 2008

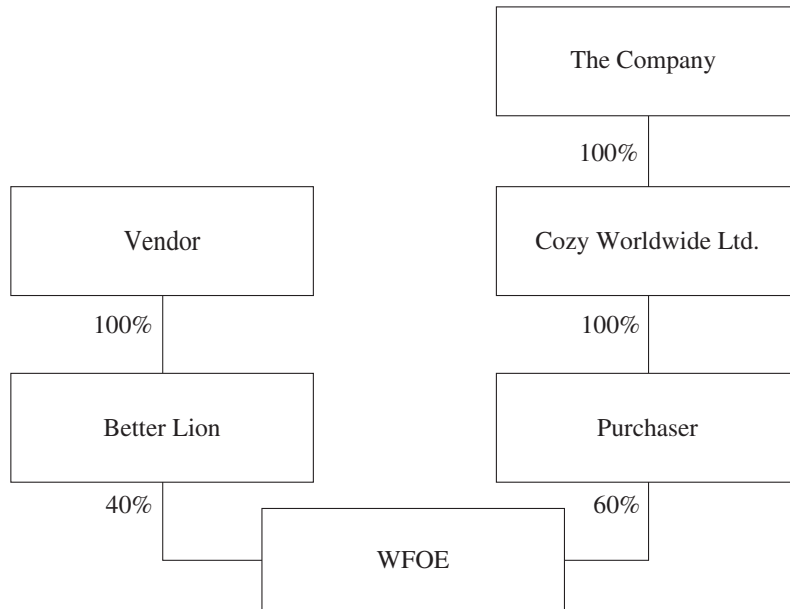
Assets to be acquired

Two ordinary shares of Better Lion, representing the entire issued share capital of Better Lion. The sole investment of Better Lion is its holding of 40% equity interest in the registered capital of the WFOE, which Better Lion acquired at a consideration of RMB48 million (equivalent to approximately HK\$50.2 million at the actual exchange rate of RMB0.956:HK\$1.00 at time of acquisition) in August 2007.

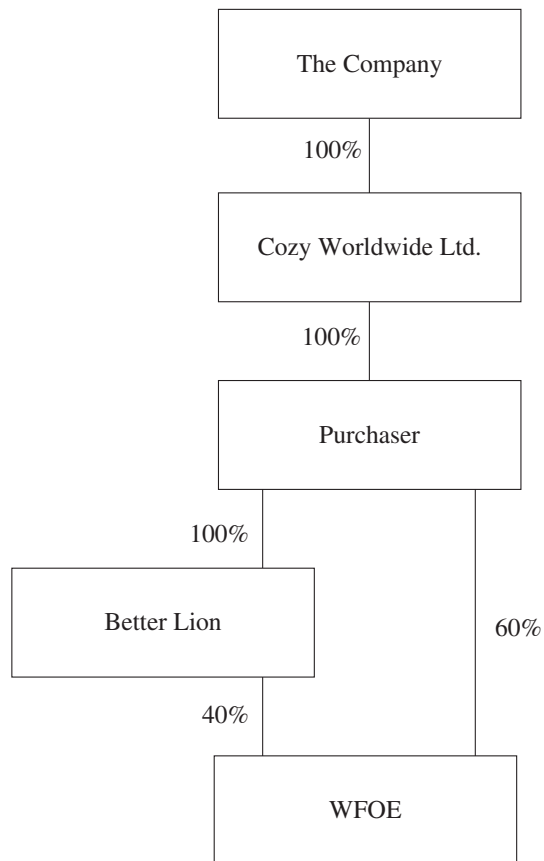
The remaining 60% equity interest in the registered capital of the WFOE is indirectly held by the Group. As of the date hereof, the WFOE is an indirect non wholly-owned subsidiary of the Company, the WFOE will become an indirect wholly-owned subsidiary of the Company upon completion of the Acquisition and its accounts will remain consolidated in the Group's accounts.

Ownership Structure of the WFOE before and immediately after the Acquisition

Before the Acquisition



Immediately after the Acquisition



Consideration

The consideration for the Acquisition is HK\$155 million. The consideration will be settled in cash and is payable in the following manner:

1. HK\$55 million, being 35.5% of the consideration, payable within one day from the date of the Share Purchase Agreement as a deposit and for settling part of the consideration upon completion; and
2. HK\$100 million, being the remaining 64.5% of the consideration, payable within 3 months from the date of completion of the Share Purchase Agreement.

The Company will satisfy the consideration by its internal resources. The consideration has been arrived at between the parties after arm's length negotiations taken into account the unaudited net asset value of the WFOE of approximately HK\$345.5 million as at 31 December 2007.

Conditions precedent

Completion of the Share Purchase Agreement is subject to and conditional upon satisfaction of, inter alia, the following conditions precedent:

- (1) completion of satisfactory legal, financial and business due diligence on Better Lion;
- (2) the obtaining of consents which are necessary or desirable for the implementation of the transactions contemplated by the Vendor and the Purchaser under the Share Purchase Agreement, including without limitation, approval of the Shareholders, if required, in relation to the Share Purchase Agreement and the transactions contemplated thereunder and any other approvals or notifications required pursuant to the requirements of the Listing Rules;
- (3) the issuance of a BVI legal opinion by the Vendor's BVI legal counsel in form satisfactory to the Purchaser;
- (4) there shall not be in effect on the completion date any law restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by the Share Purchase Agreement or which may have a material adverse effect on the Better Lion or the WFOE;
- (5) all consents, in form and substance reasonably satisfactory to the Purchaser, to the performance by the Vendor of its obligations under the Share Purchase Agreement as are required under any law or arrangement (contractual or otherwise) having been obtained and remaining in full force and effect;
- (6) none of the warranties in the Share Purchase Agreement being found to be, or no event occurring or matter arising which may render any of the warranties, untrue or inaccurate or misleading on and as at the completion date; and
- (7) the Vendor shall have complied with its completion obligations as set out in the Share Purchase Agreement.

If the above conditions precedent which may be waived in whole or in part under the Share Purchase Agreement at any time by the Purchaser, have not been satisfied or waived on or before 30 June 2008 or such other date as the parties may agree in writing, the Share Purchase Agreement shall lapse and no party shall make any claim against the other in respect thereof, save for any antecedent breach.

Furthermore, pursuant to a confirmation letter provided by the Vendor to the Company dated 9 April 2008, in the event that (a) the Vendor fails to complete the sale of the entire issued share capital of Better Lion in accordance with the provisions of the Share Purchase Agreement and the Purchaser exercises its rights under the Share Purchase Agreement to rescind the Share Purchase Agreement, or (b) the above conditions precedent are not satisfied in accordance with the provisions of the Share Purchase Agreement, the deposit in the sum of HK\$55 million paid by the Purchaser shall forthwith be returned in its entirety to the Purchaser without interest. Given the Vendor may have forgone the possibility of negotiating the sale of the entire issued share capital of Better Lion with other potential investors during the time waiting for the completion of the Share Purchase Agreement, the Directors (excluding the independent non-executive Directors) consider that the terms of the refund are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR THE ACQUISITION

The Company intends to expand the current production processes of the WFOE upon completion of the Acquisition to include further processing of glucose into acetic acid which is a major raw material used in the production of vinyl acetate (“VA”) and the manufacture and sale of which is a major business of the Group. The Directors believe that this expansion will be beneficial to the Group on the basis that estimated internal production cost of acetic acid is lower than the direct purchasing cost from external suppliers and also the expansion will not incur substantial research and development cost as the Group already holds the technology to process glucose into acetic acid. However, such expansion plan was not supported by the Vendor and the Vendor insists the WFOE should continue to produce starch and glucose only.

The Board is optimistic on the development of bio-chemical products division of the Group (or our corn-based manufacturing arm currently producing starch and glucose). According to the 關於促進玉米深加工業健康發展的指導意見 (Guided opinion on facilitation of the healthy development of corn further development industry) published by the National Development and Reform Commission of the PRC (國家發展和改革委員會) in September 2007, the PRC government will not approve any new corn-based manufacturing project at the moment to avoid over-manufacturing of corn into chemical raw materials for industrial use. In addition, Mr. Hu Jin Tao, the president of the PRC has announced in the Seventeenth National Congress of the Communist Party of China that new policy favoring the primary industry will be introduced in due course. In view of this, the Board believes that the aforesaid expansion will be able to capitalise on these favorable policies and further enhance the earnings ability of the Group.

The Board, having considered the amount of capital investment required to expand the WFOE’s existing production which will be financed by banking facilities or debt financing or other financing methods depending on the then market condition, believes that the expansion will provide a reliable and cost effective supply of acetic acid to support the Group’s expanded VA production capacity, and generate additional revenue for the Group from selling the acetic acid produced from any production surplus after satisfying its internal demand to other customers. In addition, the Board also considers that the Acquisition is in line with the Group’s business objectives in diversifying its product mix and fostering the Group to develop and produce high value-added bio-chemical products, such as xanthan gum and sodium gluconate both of which are products generated from glucose.

Based on the above, the Directors (excluding the independent non-executive Directors) consider that the terms of the Share Purchase Agreement are on normal commercial terms and that they are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The view of the independent non-executive Directors on the Acquisition will be provided in the related circular to be despatched to the Shareholders upon receiving the advice from the independent financial adviser.

INFORMATION ON THE COMPANY AND THE PURCHASER

The Company is principally engaged in the manufacture and sale of VA, polyvinyl-chloride, glucose and starch, and generation and supply of power and steam.

The Purchaser is incorporated in the BVI with limited liability and is indirectly wholly-owned by the Company. The Purchaser is principally engaged in investment holding activities.

INFORMATION ON THE VENDOR

The Vendor is an investment holding company incorporated in the BVI with limited liability. It is the legal and beneficial owner of the entire issued share capital of Better Lion, which in turn holds 40% equity interest in the registered capital of the WFOE, a non wholly-owned subsidiary of the Company. The Vendor is therefore an associate of a substantial shareholder of a subsidiary of the Company and is a connected person of the Company pursuant to the Listing Rules. Further, a director of the Vendor is personally interested in 33,700,000 shares of the Company (representing approximately 0.93% of the issued shares of the Company) as at the date of this announcement.

INFORMATION ON BETTER LION AND THE WFOE

Better Lion is incorporated in the BVI with limited liability and is wholly-owned by the Vendor. Better Lion is principally engaged in investment holding activities. As at the date of this announcement, the sole investment of Better Lion is its 40% equity interest in the registered capital of the WFOE, an indirect non wholly-owned subsidiary of the Company. Accordingly, Better Lion is a substantial shareholder of a subsidiary of the Company pursuant to the Listing Rules.

The WFOE is a wholly-foreign owned enterprise established in the PRC with limited liability and is owned as to 60% by the Purchaser, an indirect wholly-owned subsidiary of the Company, and 40% by Better Lion. As of the date hereof, the WFOE has a total investment amount of RMB230 million (approximately HK\$245.2 million) and a total paid-up registered capital of RMB100 million (approximately HK\$106.6 million). The WFOE is principally engaged in the manufacture and sale of glucose and starch.

In accordance with the Hong Kong Financial Reporting Standards, the unaudited net asset value of the WFOE was approximately HK\$345.5 million as at 31 December 2007. The audited net loss before and after tax and extraordinary items of the WFOE between the period from 16 August 2006, being the completion date of the acquisition of the 60% equity interest in the WFOE by the Group, to 30 June 2007 were approximately HK\$33.9 million. The unaudited net loss before tax and extraordinary items and net profit after tax and extraordinary items of the WFOE for the six months ended 31 December 2007 were approximately HK\$1.3 million and HK\$27.5 million, respectively.

DISCLOSEABLE AND CONNECTED TRANSACTION

As some of the applicable percentage ratios (as defined in the Listing Rules) of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Rule 14.08 of the Listing Rules and is subject to the notification and announcement requirements under the Listing Rules. As the Vendor is a connected person of the Company, the Acquisition also constitutes a connected transaction for the Company under Rule 14A.16(5) of the Listing Rules and will be subject to and conditional on, among other things, the approval of the independent Shareholders by way of poll at the EGM. A director of the Vendor holding approximately 0.93% of the issued share capital of the Company as at the date of this announcement will be required to abstain from voting on the resolution to be proposed at the EGM to approve the Acquisition. The director of the Vendor has indicated to the Company that he/she will abstain from voting accordingly.

In addition, there is no prior transaction between the Company and the Vendor and its ultimate beneficial owner(s) which would require to be aggregated with the Acquisition under Rules 14.22 and 14A.25 of the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Ma Wing Yun, Bryan, Mr. Yau Chung Hong, Mr. Tam Ching Ho and Dato' Wong Sin Just has been established to advise the independent Shareholders on whether the terms of the Share Purchase Agreement are fair and reasonable and in the interests of the Shareholders as a whole. The Company will appoint an independent financial adviser to advise the Independent Board Committee and the independent Shareholders on the terms of the Share Purchase Agreement and the transactions contemplated thereunder. A circular containing, among other things, details on the Share Purchase Agreement and the Acquisition will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“Acquisition”	the acquisition of the entire issued share capital of Better Lion as contemplated under the Share Purchase Agreement
“Better Lion”	Better Lion Holdings Limited 佳獅控股有限公司, a company incorporated in the BVI with limited liability and is wholly-owned by the Vendor
“Board”	the board of Directors
“BVI”	British Virgin Islands
“Company”	China Zenith Chemical Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Directors”	the directors of the Company

“EGM”	the extraordinary general meeting proposed to be convened by the Company for the purpose of approving the Acquisition
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely Mr. Ma Wing Yun, Bryan, Mr. Yau Chung Hong, Mr. Tam Ching Ho, and Dato’ Wong Sin Just, established to advise the independent Shareholders on the Acquisition under the Share Purchase Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Purchaser”	Better Day Bio-Chem Technology Ltd. a company incorporated in the BVI with limited liability and is an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Share Purchase Agreement”	the share purchase agreement dated 8 April 2008 entered into between the Vendor and the Purchaser in relation to the sale and purchase of the entire issued share capital of Better Lion
“Shareholders”	holders of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Kenelly Group Limited, a company incorporated in the BVI with limited liability
“WFOE”	牡丹江高科生化有限公司, a wholly-foreign owned enterprise established in the PRC and is owned as to 60% by the Purchaser and 40% by Better Lion as at the date of this announcement
“%”	per cent

For the purpose of this announcement, amounts in RMB are respectively translated into HK\$ at the following exchange rate unless otherwise specified:

RMB0.938:HK\$1.00

By order of the Board of
China Zenith Chemical Group Limited
Chan Yuk Foebe
Chief Executive Officer

Hong Kong, 10 April 2008

As at the date hereof, Mr. Chan Yuen Tung, Ms. Chan Yuk Foebe, Mr. Chiau Che Kong, Mr. Peng Zhanrong and Mr. Wu Jianwei are the executive Directors and Mr. Ma Wing Yun, Bryan, Mr. Yau Chung Hong, Mr. Tam Ching Ho and Dato' Wong Sin Just are the independent non-executive Directors.

This announcement will be available for viewing on the website of the Hong Kong Exchange and Clearing Limited (www.hkexnews.hk) and the Company's website at www.irasia.com/listco/hk/chinazenith.