Yun Sky Chemical (International) Holdings Limited

(Incorporated in Hong Kong with limited liability)

Stock Code: 663

Annual Report 2007

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Zhao Jun (Chairman)
Li Wei (C.E.O.)
Wang An Kang
Zhou Jing

Independent Non-executive Directors:

Wu Bin
Tam King Ching, Kenny
Choi Tze Kit, Sammy

COMPANY SECRETARY

Tang Suk Ngao, Raymond

QUALIFIED ACCOUNTANT

Tang Suk Ngao, Raymond

AUDIT COMMITTEE

Wu Bin
Tam King Ching, Kenny
Choi Tze Kit, Sammy

REMUNERATION COMMITTEE

Zhao Jun (Chairman)
Li Wei
Wu Bin
Tam King Ching, Kenny
Choi Tze Kit, Sammy

AUTHORISED REPRESENTATIVES

Tang Suk Ngao, Raymond
Choi Tze Kit, Sammy

AUDITORS

CCIF CPA Limited

LEGAL ADVISERS

Sidley Austin

PRINCIPAL PLACE OF BUSINESS IN HONG KONG AND REGISTERED OFFICE

Suite 1102, 11/F.,
ICBC Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

SHARE REGISTRAR

Tricor Secretaries Limited
Level 25, Three Pacific Place
1 Queen's Road East, Hong Kong

COMPANY WEBSITE

HTTP://www.equitynet.com.hk/0663

2007 is a successful and momentous year for the Group when the Group has reached an important milestone for its future development. Not only that the Group have successfully launched its business in the production and sale of yellow phosphorus to achieve its vertical integration, it also successfully launched its business in the production and sale of PVC and PVC related products such as caustic soda and sodium tri-polyphosphate to achieve its horizontal integration. As a result, both turnover and profit of the Group has substantially increased.

For the production and sale of phosphoric acid which was introduced to the Group last year, we have also successfully introduced a new grade of product, the production of the liquid crystal grade phosphoric acid to enhance profitability.

During the year, in order to focus our resources on the development of the chemical business, the Group has discontinued its business in the optical business which was subject to fierce competition and difficult operating environment. Subsequently, the listed holding company of the Group changed its name to provide a better identification of the Group's business strategy as well as the plan for its future operations.

The Board considers that the newly introduced phosphorus and PVC business has successfully broadened the income base of the Group and enhanced profitability. The Board will continue to focus on the developments of its newly introduced businesses and at the same time to identify suitable projects and investment opportunities for possible diversifications along the line of the chemical segment.

On behalf of the Board

Zhao Jun
Chairman

Hong Kong, 18 April 2008

Management Discussion and Analysis

RESULTS AND BUSINESS REVIEW

Continuing Chemical operations

The Group recorded a total turnover of approximately HK$467.0 million for its continuing operations chemical business representing a substantial increase of approximately 290.6 % compared with last year. The increase is primarily due to the introduction of the new businesses of yellow phosphorus and PVC during the year together with the fact that the Group's phosphoric acid business has shown a full year's operation compared with half year's operation when it was firstly launched in the middle of 2006. As a result, the PRC domestic sales network was substantially extended during the year.

Gross profit has increased substantially from approximately HK$29.1 million last year to approximately HK$134.3 million representing an increase of approximately 361.5%. Overall gross profit margin was approximately 28.7% compared with approximately 24.3% last year. Such increase is primarily due to the fact that the Group has shifted its emphasis to the more profitable PRC domestic markets especially in the sale of phosphoric acid.

Selling and distribution costs, and administrative expenses were approximately HK$15.2 million and HK$17.5 million respectively during the year compared with approximately HK$7.1 million and HK$8.6 million respectively for last year.

Profit for the year from the chemical operations was approximately HK$104.2 million during the year compared with a net profit of approximately HK$15.1 million last year for same reasons illustrated above representing an increase of approximately 591.1%.

Discontinued Optical operations

On 30 November 2007, the Group has discontinued its optical business by disposing all its 70% equity interest for a nominal value of HK$1 in Profitown Investment Corporation ("Profitown") and indirectly Profitown's subsidiaries (collectively the "Profitown Group"). During the year and prior to the date of disposal, Probest Holdings Inc. ("Probest"), the 30% minority shareholder of Profitown, waived approximately HK$23.2 million of the interest payable by the Profitown Group to Probest. The net tangible asset value of Profitown Group became zero upon the disposal on 30 November 2007. The Group recorded a loss on disposal of approximately HK$8.0 million. Details and reasons of the disposal are set out in the Company's circular dated 28 November 2007.

The Profitown Group was making loss for some time. For the eleven-month period ended 30 November 2007, the Profitown Group has recorded a total turnover of approximately HK$114.8 million with a gross profit of approximately HK$16.6 million. Selling, administrative expenses and other operating expenses were approximately HK$9.5 million, HK$6.2 million and HK$2.4 million respectively for the same period. Finance costs amounting to approximately HK$12.3 million represented the interest on promissory note and the loan due to Probest.

The shared profit before tax from the Profitown Group's 50 percent-owned associate, Dongguan Yueheng Optical Company Limited, for the period was approximately HK$6.9 million.

The Profitown Group recorded an operating loss of approximately HK$2.4 million before waiver of accrued interests of HK$23.2 million by Probest. Overall profit for the year from discontinued optical operations amounted to approximately HK$12.8 million compared with a loss of approximately HK$29.6 million last year.

RESULTS AND BUSINESS REVIEW (cont'd)

Discontinued Optical business (cont'd)

Upon completion of the disposal of Profitown Group, the manufacturing and sale of optical business of Group was discontinued.

FUTURE OUTLOOK

Further to the introduction of the new chemical business in recent years, the Group has successfully built up a solid platform for its current operations. These projects provide the Group both vertically and horizontally integrated structures to enhance profitability and valuable experience in the operation of the chemical sectors.

Since the beginning of 2007, in the environment of a weak US dollar, the world's mineral prices rose rapidly. The Group foresees these latest market developments will continue in the near future. In order to maintain profit margins and to ascertain the abundant supply of raw materials, the Group has developed various strategies maintaining good working relationships with both its suppliers and customers. Emphasis will be put in both quality control and customer services. The Group will also closely monitor the latest developments of the chemical sector and continue to be proactive in optimising its product mix to maximise its profits.

In order to increase its market share in the chemical sector, the Group will continue to strengthen and expand its existing sales team. The expanded sales team will be responsible for soliciting new customers and maintaining relationships with existing customers in both domestic and international markets.

The Board, with its experience in the chemical industry together with the Group's existing platform, will continue to identify suitable projects and investment opportunities for possible diversifications along the line of the chemical segment and consolidate its operation platform.

LIQUIDITY AND FINANCIAL REVIEW

The Group mainly finances its day to day operations with internally generated cash flow. As at 31 December 2007, the current ratio of the Group, measured as total current assets to total current liabilities, was 1.89:1 compared with 0.67:1 for the same time last year showing a substantial improvement.

During the year, the Group recorded a net cash inflow generated from its operating activities of approximately HK$34.7 million.

The Group conducts its continuing operational business transactions mainly in Renminbi, US dollars and Hong Kong dollars. The Group did not arrange any forward currency contracts for hedging purposes. The Group's has no financial borrowings and long term liabilities as at 31 December 2007.

GEARING RATIO

The gearing of the Group, measured as total debts to total assets, was 52.87% as at 31 December 2007, as compared to 103.85% as at 31 December 2006.

CORPORATE TRANSACTIONS

Continuing connected transactions

On 9 July 2007, the Group entered into several conditional agreements with its connected party primarily enabling the Group to commence its businesses in the manufacturing of PVC and PVC's related products. These agreements were subsequently approved by the shareholders of the Company in an extraordinary general meeting held on 23 August 2007. These agreements are summarised as follows:–

(i) the Yunnan Factories Coal Supply Agreement enabling the Group to purchase coal for its power generation for its operations. The agreement will expire on 31 December 2008.

(ii) the Phosphorus Ancillary Materials Procurement Agreement enabling the Group to purchase ancillary materials for repairing and maintaining production facilities for its phosphorus operations. The agreement will expire on 31 December 2008.

(iii) the PVC Ancillary Materials Procurement Agreement enabling the Group to purchase ancillary materials for repairing and maintaining production facilities for its PVC operations. The agreement will expire on 31 December 2009.

(iv) the PVC Leasing Agreement where the Group leases certain premises including PVC production factory and ancillary structures and the machinery and equipment located in these premises in Yunnan. The lease will expire on 31 December 2009. The Group commenced its PVC business in November 2007.

(v) the PVC Distribution Agreement where the Group engages its connected party as a distributor for the sale of sodium tripolyphosphate, a PVC related product. The agreement will expire on 31 December 2008.

For further details of the above transactions, please refer to the Company's announcement dated 9 July 2007 and the Company's circular dated 8 August 2007.

Connected and major transaction

On 2 November 2007, the Company and Asset Up Limited ("Asset Up") entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Asset Up agreed to purchase 70% equity interest in Profitown and indirectly its subsidiaries at a nominal consideration of HK$1.0 in cash by exercising the Put Option under the Shareholders' Agreement made between the Company, Probest and Tomorrow International Holdings Limited dated 3 June 2005. The disposal was completed on 30 November 2007. Upon completion of the disposal, a guarantee given by the Company in favour of Probest ceased to be effective and the Group discontinued its optical business operations.

For further details of the above transactions, please refer to the Company's announcement dated 7 November 2007 and the Company's circular dated 28 November 2007.

Change of company name

On 7 November 2007, the Company announced that the Board proposed to change the name of the Company from "Swank International Manufacturing Co., Ltd." in English and "恒光行實業有限公司" in Chinese to "Yun Sky Chemical (International) Holdings Limited " in English and "南嶺化工(國際)控股有限公司" in Chinese.

The proposed change of name of the Company became effective on 2 January 2008 after to (i) the approval by the shareholders of the Company by way of a special resolution at the EGM convened on 20 December 2007; (ii) the new name is entered on the register of companies by the Registrar of Companies in Hong Kong; and (iii) the issuance of a Certificate of Registration of Change of Name by the Registrar of Companies in Hong Kong on 2 January 2008.

CORPORATE TRANSACTIONS (cont'd)

Change of company name (cont'd)

For further details of the above transactions, please refer to the Company's announcement dated 7 November 2007 and the Company's circular dated 28 November 2007.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

As mentioned above in the section "Corporate Transactions", the Company and Asset Up entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Asset Up agreed to purchase 70% equity interest in Profitown and indirectly its subsidiaries at a nominal consideration of HK$1.0 in cash by exercising the Put Option under the Shareholders' Agreement of Profitown made between the Company, Probest and Tomorrow International Holdings Limited dated 3 June 2005. At the date of disposal, Profitown Group had a net asset of zero.

The disposal was completed on 30 November 2007.

Save as disclosed above, there was no other material change on the investment held and also no other material acquisition or disposal of any subsidiary and associate of the Group during the year.

CAPITAL COMMITMENT, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2007, the Group had a capital commitment of approximately HK$1.7 million relating to the outstanding contracted for constructing new plant and machinery for the production of liquid crystal grade phosphoric acid.

As at 31 December 2007, there was no charge on the Group's assets and no material contingent liability.

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2007, the Group had 1,604 employees. The Group's remuneration policy is primarily based on the individual performance and experience of employees including directors, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for benefits to employees' better personal development and growth.

Pursuant to the Company's share option scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. As at 31 December 2007, total share options outstanding amounted to 10,000,000 shares held by an employee. No share option was exercised during the year.

On behalf of the Board

Li Wei
C.E.O.

Hong Kong, 18 April 2008

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wang An Kang, aged 45, has been engaged in the phosphorus industry through the import and export of phosphorus products since 1990. Mr. Wang was appointed executive director of the Company on 5 July 2005. In 1999, he restructured several state-owned enterprises on the verge of bankruptcy into Yunnan Phosphorous Group Co. Ltd. ("Yunphos") and is currently the controlling shareholder of Yunphos. The remaining two shareholders of Yunphos are two of its directors. Over the last 15 years, Yunphos (including its predecessors) has evolved into a vertically integrated company engaged in the development, manufacturing, import and export of phosphorus products. With Mr. Wang's continuous efforts in exploring the international market. Yunphos has built strong and long-term relationships with numerous international customers in Europe, America, Australia, Japan and South East Asia. He is currently the vice chairman of the Federation of Industry & Commerce of Yunnan Province, the vice chairman of the Yunnan Overseas Association and the vice chairman of the Chamber of Commerce for Import and Export of Yunnan Province. Mr. Wang is a PRC citizen.

Mr. Zhao Jun, aged 45. Mr. Zhao is the Chairman of Board of directors of the Company and is responsible for the overall strategic planning, business investment and development of the Group. Mr. Zhao joined the chemical department of Kunming Import & Export Corporation, the predecessor of Yunphos, as the deputy general manager in 1993 and has gained extensive experience in international trade as a senior executive of Yunphos. Mr. Zhao has a master degree in Business Administration core courses. Mr. Zhao was appointed executive director of the Company on 5 July 2005. Mr. Zhao is a PRC citizen.

Mr. Li Wei, aged 41. Mr. Li is the Chief Executive Officer of the Group overseeing the management and administration of the Group. Before joining the Company, Mr. Li was the deputy general manager of Golden Dragon Hotel in Kunming, a Hong Kong registered hotel, and accumulated extensive experience in hotel management. Mr. Li was also the general manager of the 雲南鑫格集團 (Yunnan Xinge Group), responsible for planning and investment. Mr. Li possesses strong experience in international trade management. Mr. Li was appointed executive director of the Company on 5 July 2005. Mr. Li is a PRC citizen.

Ms. Zhou Jing, aged 33, graduated from 雲南省財經大學 (Yunnan University of Finance and Economics) with a bachelor's degree majoring in accounting. Ms. Zhou was awarded with the Qualification Certificate of Accountant Specialty and Technology of China (Intermediate) in 1998 and Certified Public Accountant qualification in the PRC in 2002. In 1996, Ms. Zhou joined an imports and exports company and was responsible for foreign trade accounting. Ms. Zhou has extensive experience in international trade accounting. In 1999, Ms. Zhou joined an accountant firm and carried out her duties in auditing and asset valuation as a certified accountant. Ever since her appointment as Financial Manager of Yunphos International Trading Co., Ltd. in 2002, Ms. Zhou has been involved in international trade and corporate financial management. Ms. Zhou was appointed executive director of the Company on 5 July 2005. Ms. Zhou is a PRC citizen.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Bin, aged 52, graduated from the California State University with a bachelor's degree in management information systems. He completed his master degree course in high-tech management from the Golden Gate University, San Francisco and has completed a management programme at the Stanford University, USA. Mr. Wu is currently the general manager of Kunming Pantong Real Estates Co., Ltd. Mr. Wu was first appointed independent non-executive director of the Company on 5 July 2005 and re-appointed at the Company's previous annual general meetings for the last two year.

Mr. Tam King Ching, Kenny, aged 58, graduated from Concordia University, Canada, with a bachelor's degree in commerce. Mr. Tam is a practicing accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. He is serving as a member of the Ethics Committee and Practice Review Committee of the Hong Kong Institute of Certified Public Accountants. Mr. Tam is also a past president of The Society of Chinese Accountants and Auditors. Mr. Tam was first appointed independent non-executive director of the Company on 24 August 2005 and re-appointed at the Company's previous annual general meetings for the last two year.

Mr. Choi Tze Kit, Sammy, aged 45, graduated from the Hong Kong Shue Yan College. He is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He has over 20 years' experience in finance and auditing and worked for a number of listed companies and international accounting firms in Hong Kong. Mr. Choi was first appointed independent non-executive director of the Company on 5 July 2005 and re-appointed at the Company's previous annual general meetings for the last two year.

SENIOR MANAGEMENT

Mr. Tang Suk Ngo, Raymond, aged 44, is the Chief Financial Officer, Company Secretary and Qualified Accountant of the Company since August 2005. Mr. Tang is an associate member of the Institute of Chartered Accountants in England and Wales and has more than 18 years of experience in audit and accountancy as well as investment banking. Prior to joining the Company in August 2005, Mr. Tang has worked for a number of accounting firms in Hong Kong and the United Kingdom as well as a number of international investment banks based in Hong Kong as their corporate finance directors. Mr. Tang was educated in Hong Kong and the United Kingdom and graduated from the London School of Economics in the United Kingdom in 1986 with a bachelor's degree in science (Economics).

Mr. Liu Hua, aged 37, is the Deputy General Manager of the Group's yellow phosphorus and PVC business. Mr. Liu joined the Group in January 2007 and is responsible for managing and overseeing the Group's general operations in Yunnan. Mr Liu has more than 12 years of working experience in the chemical sector in the PRC. He joined the Yunphos Group in September 1996 and was promoted as a general manager in May 2004. Prior to that, Mr. Liu has been a chief executive of a village government in the Songming County in Yunnan Province from 1990 to 1996. Mr. Liu is a Deputy to the Perople's Congress in the Kumming City in Yunnan.

Mr. Chen Xingwen, aged 40, is the General Manager of the Group's phosphoric acid business in Guangxi. Mr. Chen joined the Group in July 2006 and is responsible for the overall supervision of the Group's phosphoric acid operations. Mr. Chen and has more than 20 years of experience in the production of phosphoric acid. Mr. Chen graduated from the 雲南大學 (Yunnan University) in the PRC with a bachelor degree in chemistry in 1991by distance learning.

Mr. Chai Youlin, aged 56, is the Production Manager of the Group's phosphoric acid business in Guangxi. Mr. Chai joined the Group in July 2006 responsible for the production of phosphoric acid. Before joining the Group. Mr. Chai was employed by a phosphoric fertilizer enterprise responsible for its production. He has more than 30 years of relevant experience in the production of phosphoric products.

Ms. Yang Xiu, aged 43, is the supervisor of the Group's yellow phosphorus and PVC business. Ms. Yang joined the Group in January 2007 and is responsible for supervising the Group's financial controlling operations in Yunnan. Ms. Yang joined the Yunphos Group in 1998 as its group's chief financial controller. Ms Yang has more than 18 years of experience in accountancy, internal audit and financial controlling.

Mr. Tao Luchong, aged 39, is the chief accountant the Group's yellow phosphorus and PVC business. Ms. Yang joined the Group in November 2007 and is responsible for overseeing the Group's financial controlling operations in Yunnan. Mr. Tao joined the Yunphos Group in 1989 as financial accountant and was promoted as a chief accountant in 2004. Mr Tao has more than 18 year experience in financial management, accounting, internal audit and financial controlling.

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. During the year, the Group's principal activities comprised the following:

(i) the manufacture and sale of phosphoric products for industrial use;

(ii) the manufacture and sale of PVC and PVC related products for industrial use; and

(iii) the design, manufacture and sale of optical products (discontinued on 30 November 2007)

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 86. The directors do not recommend the payment of any dividend in respect of the year under review.

SUMMARY FINANCIAL INFORMATION

A summary of the results of the Group for the last five financial reporting years and of its assets, liabilities and minority interests at the respective financial reporting year end dates, as extracted from the published audited financial statements of the Group, is set out below.

Continuing Chemical Operations

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS TURNOVER	**467,006**	119,560	–	–	–
PROFIT BEFORE AND AFTER TAXATION	**104,211**	15,079	–	–	–
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	**104,211**	15,079	–	–	–

SUMMARY FINANCIAL INFORMATION (cont'd)

Discontinued Optical Operations

	Eleven months ended 30 November	Year ended 31 December			
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS TURNOVER	**114,828**	115,641	146,982	174,890	192,236
(LOSS) BEFORE TAXATION AND AFTER SHARE OF PROFITS OF ASSOCIATES	**(2,338)**	(29,113)	(28,945)	(7,582)	(8,401)
Debt and accrued interests waived by Probest	**23,198**	–	67,662	–	–
(Loss) on disposal	**(8,021)**	–	–	–	–
Taxation	**(63)**	(476)	–	–	(151)
PROFIT(LOSS) BEFORE MINORITY INTERESTS	**12,776**	(29,589)	38,717	(7,582)	(8,552)
Minority interests	**(965)**	8,878	7,221	2,323	1,498
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	**11,811**	(20,711)	45,938	(5,259)	(7,054)

Assets and Liabilities

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**260,198**	228,025	225,773	240,512	253,563
TOTAL LIABILITIES	**137,576**	236,809	211,099	263,009	265,928
MINORITY INTERESTS	**–**	(16,866)	36,561	44,582	47,670
	122,622	8,082	(21,887)	(67,079)	(60,035)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements. There were no property, plant and equipment owned by the Company during the year ended 31 December 2007.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in notes 27 and 28 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in shareholders' equity and in the note 29 to the financial statements respectively.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company had no retained profits available for cash distribution and/or distribution in specie. In addition, the Companys share premium account, in the amount of HK$723,462,000, is governed by Section 48B of the Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, for the Group's sales to the Group's five largest customers for its continuing chemical operations accounted for approximately 59.89% of the total sales for the year and sales to the largest customer included therein amounted to approximately 36.38% of the total sales. Purchases from the Group's five largest suppliers for its continuing chemical operations accounted for approximately 66.95% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 32.26% of the total purchases.

Except for Mr. Wang An Kang ("Mr. Wang"), a director and substantial shareholder of the Company, has interest in one of the largest five customers and one of the largest five suppliers, as far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) nor those shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers or suppliers.

The independent non-executive directors represented that the transactions between the Group and the companies, of which Mr. Wang has interest in, were carried out on normal commercial terms.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Zhao Jun (Chairman)
Li Wei (C.E.O.)
Wang An Kang
Zhou Jing

Independent non-executive directors:

Wu Bin
Tam King Ching, Kenny
Choi Tze Kit, Sammy

In accordance with the specific director service contracts and article 103(A) of the Company's articles of association, all the independent non-executive directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 9 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Zhao Jun, Li Wei, Wang An Kang and Ms. Zhou Jing, being the executive Directors, has entered into a service contract with the Company for a term of three years commencing on 5 July 2005, terminable by not less than three months' notice by either party. Each of these contracts is subject to rotation and re-election in accordance with the memorandum and articles of association of the Company.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except for Mr. Wang, no other director had a material interest in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

The contracts of significance to the business of the Group during the year of which Mr. Wang has material interest were:-

1. Three leasing agreements which an indirect wholly-owned subsidiary of the Company leased a premise in the Guangxi Province and two premises in the Yunnan Province respectively from companies controlled by Mr. Wang to carry on its businesses. Such premises included production factories and their ancillary structures, and ancillary equipment and machinery in these three locations.

2. An agency agreement by which the Group engages a company controlled by Mr. Wang to act as its selling agent for the Group's products.

3. A raw materials purchase agreement enabling the Group to purchase raw materials for its production from companies controlled by Mr. Wang.

4. Two distribution agreements by which the Group engages companies controlled by Mr. Wang to act as its distributor for its products.

5. A coal supply agreement enabling the Group to purchase coal for its power generation for its operations from companies controlled by Mr. Wang.

6. Two ancillary materials procurement agreement enabling the Group to purchase ancillary materials from companies controlled by Mr. Wang for repairing and, or maintaining production facilities for its operations.

DIRECTORS' INTERESTS IN CONTRACTS (cont'd)

7. An agency agreement by which a trading company controlled by Mr. Wang engages a direct wholly owned subsidiary of the Company to act as its selling agent for its merchandise

During the year, the transactions under these contracts are set out in note 32(a) to the financial statements.

Further details of these contracts are disclosed in the Company's circulars dated 11 May 2005, 2 June 2006 and 8 August 2007.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

Interests in the Company

As at the date hereof, one of the directors who held office at 31 December 2007 had the following interests in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

Name of director	Nature of interest	Number of shares	Approximate Percentage
Mr. Wang	Corporate	1,883,539,680	60.28

Save as disclosed above, as at the date hereof, none of the Directors and chief executive of the Company was interested, or deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company had a share option scheme approved on 28 May 2002 under which the directors might grant options to eligible participants to subscribe up to 10% of the nominal amount of the issued share capital of the Company. Particulars of the share option scheme of the Company are disclosed in note 28 to the financial statements. As at 31 December 2007, the Company has no share options outstanding to any directors of the Company.

Save as disclosed herein, none of the directors or their associates held any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

(a) Interest in Shares of the Company

As at the date hereof, the following interests of 5% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
China Time Investment Holdings Limited	1,883,539,680 (note 1)	60.28
Mr. Wang An Kang ("Mr. Wang")	1,883,539,680 (note 1)	60.28
Ms. Mu Yucun	1,883,539,680 (note 2)	60.28
Choi Koon Shum, Jonathan ("Mr. Choi")	188,702,795 (note 3)	6.04
Kwan Wing Kum, Janice ("Ms. Kwan")	188,702,795 (note 3)	6.04
Lam William Ka Chung ("Mr. Lam")	188,702,795 (note 3)	6.04
Lam Wong Yuk Sin, Mary ("Mrs. Lam")	188,702,795 (note 3)	6.04
Kingsway International Holdings Limited ("Kingsway International")	188,702,795 (note 3)	6.04
Innovation Assets Limited ("Innovation")	188,702,795 (note 3)	6.04
World Developments Limited ("World Developments")	188,702,795 (note 3)	6.04
SW Kingsway Capital Holdings Limited ("SW Kingsway")	188,702,795 (note 3)	6.04
Festival Developments Limited ("Festival Developments")	188,702,795 (note 3)	6.04

Notes:

1. Mr. Wang is the sole shareholder of China Time Investment Holdings Limited.

2. Ms. Mu Yucun is Mr. Wang's spouse and she is deemed to be interested in Mr. Wang's interest in the Shares.

3. Mr. Choi and his spouse Ms. Kwan were deemed to be interested in 188,702,795 ordinary shares in the Company by virtue of their 46% shareholding in Kingsway International. Mr. Lam and his spouse Mrs. Lam were deemed to be interested in 188,702,795 ordinary shares in the Company by virtue of their 40% shareholding in Kingsway International. Kingsway International, in turn, held 100% shareholding in Innovation. Innovation, in turn, held 100% shareholding in World Developments. World Developments, in turn, held 74% shareholding in SW Kingsway. SW Kingsway, in turn, held 100% direct shareholdings in each of Festival Developments.

Save as disclosed above, the directors of the Company are not aware of any person who is, directly or indirectly, interested in 5% or more of the issued share capital of the Company, has short positions on the shares or underlying shares, or has any rights to subscribe for shares in respect of such capital.

SUBSTANTIAL SHAREHOLDERS (cont'd)

(b) Interest in Shares of other members of the Group

As at the date hereof, so far as is known to the directors of the Company, there are no parties who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances in general meetings of any other member of the Group.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONNECTED PARTY TRANSACTIONS

(a) Connected

In January 2007, Anchorage Trading Limited, a direct wholly owned subsidiary of the Company, purchased 151.2 tonnes of phosphoric acid (industry grade) at a unit price of US$470 per tonne for a total consideration of US$71,064 (HK$554,904) from a company controlled by Mr. Wang for resale purposes. The transaction constitutes a connected transaction (as described in Chapter 14A of the Listing Rules) but is exempted from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

(b) Connected and major

On 2 November 2007, the Company and Asset Up Limited ("Asset Up") entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Asset Up agreed to purchase 70% equity interest in Profitown and indirectly its subsidiaries at a nominal consideration of HK$1.0 in cash by exercising the Put Option under the Shareholders' Agreement made between the Company, Probest and Tomorrow International Holdings Limited dated 3 June 2005. The disposal was completed on 30 November 2007. Upon completion of the disposal, a guarantee given by the Company in favour of Probest ceased to be effective and the Group discontinued its optical business operations. Probest, a substantial shareholder of Profitown who holds 30% equity interest in Profitown, was deemed as a controller of the Group. Accordingly, the Disposal by way of exercising the Put Option constituted a connected transaction for the Company under Listing Rule 14A.13(1)(b)(i). The Company has applied to the Stock Exchange for a waiver from strict compliance with independent Shareholders' approval requirement pursuant to Rule 14A.43 of the Listing Rules.

Except for the above transactions, there were no other connected party transactions (as described in Chapter 14A of the Listing Rules) entered into by the Group during the year.

CONTINUING CONNECTED TRANSACTIONS

During the year, the following continuing connected transactions, as set out in note 32(a) to the financial statements, have been entered into by the Group. These transactions have been fully approved by the Board and the shareholders of the Company in extraordinary meetings held previously in accordance with Chapter 14A of the Listing Rules.

a. An agency agreement commencing on 3 June 2005 by which a wholly owned subsidiary is engaged by a connected person to act as its trading agent for some trading business. During the year, a total of US$166,537 (HK$1,299,745) of commission income was recorded.

b. An agency agreement commencing on 19 June 2006 by which an indirect wholly subsidiary engages a connected person to act as its sales agent for its products. During the year, a total of RMB670,666 (HK$686,896) of commission expenses was recorded.

c. A leasing agreement which the same subsidiary of the Company leased certain premises in Guangxi from a connected party to carry on its manufacturing business. Such premises included production factories together with their ancillary structures, and ancillary equipment and machinery in this location. The lease commenced on 27 June 2006 with an annual rental of RMB 2.5 million for 2007.

d. A leasing agreement which the same subsidiary of the Company or its fellow subsidiary within the Group leased certain premises in Yunnan from a connected party to carry on its phosphorus manufacturing business. Such premises included production factories together with their ancillary structures, and ancillary equipment and machinery in this location. The lease commenced on 31 December 2006 with an annual rental of RMB 20.0 million for 2007.

e. A distribution agreement by which the same subsidiary engaged a connected person and/or its associate(s) to act as its distributors for its phosphoric products. During the year, total sales of RMB178,982,738 (HK$183,314,120) was recorded.

f. A raw material purchase agreement by which the same subsidiary purchases from a connected person and/or its associate(s) its yellow phosphorus for its productions. During the year, total purchases of RMB57,339,079 (HK$58,726,685) was recorded.

g. A coal supply agreement enabling the same subsidiary of the Company or its fellow subsidiary within the Group to purchase coal from a connected person and/or its associate(s) for its power generation for its operations. During the year, total purchases of RMB9,848,585 (HK$10,086,920) was recorded.

h. A phosphorus ancillary materials procurement agreement enabling the same subsidiary of the Company or its fellow subsidiary within the Group to purchase ancillary materials from a connected person and/or its associate(s) for repairing and, or maintaining production facilities for its phosphorus operations. During the year, total purchases of RMB3,599,037 (HK$3,686,134) was recorded.

i. A PVC ancillary materials procurement agreement enabling the same subsidiary of the Company or its fellow subsidiary within the Group to purchase ancillary materials from a connected person and/or its associate(s) for repairing and, or maintaining production facilities for its PVC operations. During the year, total purchases of RMB4,881,416 (HK$4,999,546) was recorded

CONTINUING CONNECTED TRANSACTIONS (cont'd)

j. a PVC Leasing Agreement where the same subsidiary of the Company or its fellow subsidiary within the Group leases certain premises in Yunnan including PVC production factory and ancillary structures and the machinery and equipment located in these premises in Yunnan from a connected person. The lease commenced on November 2007 with a rental of RMB 12.5 million for 2007.

k. a PVC distribution agreement where the same subsidiary of the Company or its fellow subsidiary within the Group engages its connected party and/or its associate(s) as a distributor for the sale of sodium tripolyphosphate, a PVC related products. During the year, total sales of RMB10,787,350 (HK$11,048,404) was recorded.

l. A loan restructuring agreement commenced on 3 June 2005 by which a loan and a promissory note were due to a connected person. Interest rate was 1 % over Hong Kong prime rate. During the year, total interest expenses incurred were approximately HK$12,318,000.

The independent non-executive Directors have reviewed these transactions and confirmed that these transactions have been entered to:

(i) in the ordinary course and usual course of business of the Group;

(ii) either on normal commercial terms, or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company.

The Directors confirm that the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

POST BALANCE SHEET EVENTS

On 2 January 2008, the Company changed its name from "Swank International Manufacturing Co., Ltd." in English and "恒光行實業有限公司" in Chinese to "Yun Sky Chemical (International) Holdings Limited" in English and "南嶺化工(國際)控股有限公司" in Chinese.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of its Code on Corporate Governance Practices ("the Code") during the year ended 31 December 2007.

Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report".

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the Directors, all of the Directors have complied with, for any part of the accounting period covered by this Annual Report, the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors to be independent.

PUBLIC FLOAT

As at the date of this Report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The Audit Committee has reviewed both the interim results for the period of six months ended 30 June 2007 and the final results for the year ended 31 December 2007.

REMUNERATION COMMITTEE

The Company has a remuneration committee which was established in accordance with the requirements of the Code, for the purposes of considering and making recommendations to the Board the Group's remuneration policy and structure and to review and determine the remuneration packages of the executive directors and senior management

AUDITORS

CCIF CPA Limited retire and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Li Wei
C.E.O.

Hong Kong, 18 April 2008

Corporate Governance Report

INTRODUCTION

The Group is committed to achieving high standards of corporate governance which is crucial to the development of the Group and safeguard the interests of the Company's shareholders. To accomplish this, the Group has adopted practices which meet the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). During the year, the Company has complied with the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard as set out in the Model Code during the year ended 31 December 2007.

BOARD OF DIRECTORS

The Board of Directors comprises the Chairman, the C.E.O, two other Executive Directors and three Independent Non-executive Directors. The Board of Directors is principally accountable to the shareholders and is responsible for the leadership and control of the Group including overseeing the Group's businesses, strategic directions, financial performance, setting objectives and business development plans, and monitoring the performance of the senior management.

The Board of Directors meets regularly throughout the year to formulate overall strategy, monitor business development as well as the financial performance of the Group and has formal procedures on matters for consideration and decision. The Board of Directors has delegated certain authorities to the senior management for the day-to-day management of the Group's operation. The attendance of directors at the five full board meetings held in 2007 is as follows:

Directors	Attendance
Executive Directors	
Wang An Kang	2
Zhao Jun	5
Li Wei	5
Zhou Jing	5
Independent Non-executive Director	
Wu Bin	2
Tam King Ching, Kenny	4
Choi Tze Kit, Sammy	4

The Company has received the annual confirmation of independence from each of the independent non-executive directors as required under Rule 3.13 of the Listing Rules. The Company considered all independent non-executive directors to be independent.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference with reference to the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and such terms of reference are in line with the code provisions set out in the Code. The Audit Committee meets at least twice a year for reviewing the reporting of annual and interim results and other information to the shareholders, and the effectiveness and objectivity of the audit process. Additional meetings may be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Company may request a meeting if they consider that one is necessary. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors. The Audit Committee consists of three independent non-executive directors. The Audit Committee is chaired by Mr. Wu Bin.

During the year, the Audit Committee reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements and unaudited interim financial statements. The members and attendance of the two meetings of the Audit Committee in 2007 are as follows:

Directors	Attendance
Wu Bin	1
Choi Tze Kit, Sammy	2
Tam King Ching, Kenny	2

ROLE AND RESPONSIBILITIES OF CHAIRMAN AND MANAGING DIRECTOR

In compliance with provision A.2.1 of the Code, the roles of chairman, currently held by Mr. Zhao Jun, and chief executive officer, currently held by Mr. Li Wei, are separate and are not performed by the same individual.

TERMS OF NON-EXECUTIVE DIRECTORS

Under provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. All of the existing independent non-executive directors of the Company are appointed on specific terms, and are subject to retirement by rotation at the annual general meeting of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee of the Group was established in September 2005 with written terms of reference in line with the Code. The Remuneration Committee will meet at least once a year to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration packages of the executive directors and senior management. The directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. The Remuneration Committee comprises three independent non-executive directors and two executive directors. The Remuneration Committee is chaired by Mr. Zhao Jun.

During the year, the Remuneration Committee held two meeting to review the remuneration policy of the Company. The members and attendance of the meeting are as follows:

Director	Attendance
Zhao Jun	2
Li Wei	2
Wu Bin	2
Tam King Ching, Kenny	2
Choi Tze Kit, Sammy	2

Details of remunerations of the directors from the Group for the year are as disclosed in note 8 to the financial statements.

NOMINATION OF DIRECTORS

According to the Company's articles of association, the Board of Directors has the power from time to time and at any time to appoint any person as a director either to fill a causal vacancy or as an addition to the Board of Directors. The nomination should take into consideration the nominee's qualification, ability and potential contributions to the Company. During the year, the Board of Directors considered that there was no immediate need to make any change in relation to the Board membership.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for the Financial Statements

The directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2007, the directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor's Responsibilities and Remuneration

During the year, the audit fee for the Group amounted to HK$930,000. The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Report of the Auditor on page 24 to 25.

Internal Control

During the year, the Company has adopted and reviewed the effectiveness of the Group's internal control procedures which include the policies, procedures, monitoring and communication activities and standard of behaviour established for safeguarding the interests of the shareholders of the Company.

Report of the Auditor

CCIF

CCIF CPA LIMITED

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF YUN SKY CHEMICAL (INTERNATIONAL) HOLDINGS LIMITED
(Formerly known as Swank International Manufacturing Co., Ltd)
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Yun Sky Chemical (International) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 86 which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2007 and of Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 18 April 2008

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000 (restated)
Continuing operations			
Turnover	5	**467,006**	119,560
Cost of sales		**(332,748)**	(90,467)
Gross profit		**134,258**	29,093
Other income	6	**2,662**	1,754
Selling and distribution costs		**(15,223)**	(7,123)
Administrative expenses		**(17,486)**	(8,645)
Profit before income tax		**104,211**	15,079
Income tax	10	**–**	–
Profit for the year from continuing operations	7	**104,211**	15,079
Discontinued operation			
Profit/(Loss) for the year from discontinued operation	16	**12,776**	(29,589)
Profit/(Loss) for the year		**116,987**	(14,510)
Attributable to:			
Equity holders of the Company	11		
– Continuing operations		**104,211**	15,079
– Discontinued operation		**11,811**	(20,711)
		116,022	(5,632)
Minority interests			
– Continuing operations		**–**	–
– Discontinued operation		**965**	(8,878)
		965	(8,878)
		116,987	(14,510)
Dividends	12	**–**	–
Earnings/(loss) per share (HK cents)	13		
Basic			
Continuing operations		**3.33**	0.48
Discontinued operation		**0.38**	(0.66)
Continuing and discontinued operations		**3.71**	(0.18)
Diluted			
Continuing operations		**3.33**	N/A
Discontinued operation		**0.38**	N/A
Continuing and discontinued operations		**3.71**	N/A

The notes on pages 33 to 86 form an integral part of these financial statements.

Consolidated Balance Sheet

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**258**	54,825
Construction in progress	15	**464**	–
Interests in associates	18	**–**	50,100
		722	104,925
Current assets			
Inventories	19	**57,474**	43,258
Trade receivables	20	**47,533**	29,750
Bills receivable		**–**	78
Prepayments, deposits and other receivables	21	**124,127**	12,619
Short term bank deposits	22	**–**	29,991
Cash and bank balances	22	**30,342**	7,404
		259,476	123,100
Total assets		**260,198**	228,025
EQUITY			
Share capital	27	**31,249**	31,249
Reserves	29(a)	**91,373**	(23,167)
Equity attributable to equity holders of the Company		**122,622**	8,082
Minority interests		**–**	(16,866)
Total equity		**122,622**	(8,784)
LIABILITIES			
Non-current liabilities			
Amount due to a shareholder, Probest	25	**–**	53,579
Provision for long service payments		**–**	115
		–	53,694
Current liabilities			
Amounts due to associates	18	**–**	6,729
Amounts due to related companies	32(c)	**39,634**	11,460
Amounts due to directors	32(d)	**1,942**	–
Trade payables	23	**61,846**	20,570
Accruals and other payables	24	**34,154**	16,176
Current portion of promissory note payable	25	**–**	127,335
Tax payable		**–**	845
		137,576	183,115
Total liabilities		**137,576**	236,809

Consolidated Balance Sheet

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Total equity and liabilities		**260,198**	228,025
Net current assets/(liabilities)		**121,900**	(60,015)
Total assets less current liabilities		**122,622**	44,910

Approved and authorised for issue by the board of directors on 18 April 2008

On behalf of the board

Zhao Jun
Director

Li Wei
Director

The notes on pages 33 to 86 form an integral part of these financial statements.

Balance Sheet

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	17	**4**	9
Current assets			
Prepayments, deposits and other receivables	21	**1,069**	574
Cash and bank balances	22	**16**	13
		1,085	587
Total assets		**1,089**	596
EQUITY			
Share capital	27	**31,249**	31,249
Reserves	29	**(45,951)**	(40,026)
Total equity		**(14,702)**	(8,777)
LIABILITIES			
Current liabilities			
Amount due to a subsidiary	17	**13,087**	7,809
Accruals and other payables	24	**2,704**	1,564
Total liabilities		**15,791**	9,373
Total equity and total liabilities		**1,089**	596
Net current liabilities		**(14,706)**	(8,786)

Approved and authorised for issue by the board of directors on 18 April 2008

On behalf of the board

Zhao Jun
Director

Li Wei
Director

The notes on pages 33 to 86 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity shareholders of the Company										
	Share capital HK'000	Share premium account HK'000	Property revaluation reserve HK'000	Exchange fluctuation reserve HK'000	Capital reserve HK'000	Special reserve HK'000	Share options reserve HK'000	Accumulated losses HK'000	Total HK'000	Minority interests HK'000	Total equity HK'000
At 1 January 2006	31,249	723,462	21,043	8,551	8	341,800	–	(1,148,000)	(21,887)	36,561	14,674
Realised property reserve upon disposal of leasehold land and buildings	–	–	(21,043)	–	–	–	–	20,508	(535)	535	–
Loss for the year	–	–	–	–	–	–	–	(5,632)	(5,632)	(8,878)	(14,510)
Realised minority interests upon paying compensation to minority interests	–	–	–	–	–	–	–	36,084	36,084	(45,084)	(9,000)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	52	–	52	–	52
At 31 December 2006	31,249	723,462	–	8,551	8	341,800	52	(1,097,040)	8,082	(16,866)	(8,784)
As 1 January 2007	31,249	723,462	–	8,551	8	341,800	52	(1,097,040)	8,082	(16,866)	(8,784)
Profit for the year	–	–	–	–	–	–	–	116,022	116,022	965	116,987
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	52	–	52	–	52
Disposal of subsidiaries (note 30)	–	–	–	(7,872)	(8)	–	–	–	(7,880)	15,901	8,021
Transfer to retained earnings upon disposal of subsidiaries (note)	–	–	–	–	–	(341,800)	–	341,800	–	–	–
Exchange difference on translation of financial statements of PRC subsidiaries	–	–	–	6,346	–	–	–	–	6,346	–	6,346
At 31 December 2007	31,249	723,462	–	7,025	–	–	104	(639,218)	122,622	–	122,622

Note: Special reserve of HK$341,800,000 brought forward was created under a Court Ruling in 2003 while the Company applied for the capital reduction and was related to the write down of several subsidiaries of Profitown Investment Corporation (collectively the "Profitown Group"). The Court ruled out that as long as such subsidiaries still exist within the Group or proved to be zero value, such amount of special reserve should be retained. However, upon the disposal of the Profitown Group on 30 November 2007, the entire balance of HK$341,800,000 was transferred to accumulated losses as a reserve movement accordingly.

The notes on pages 33 to 86 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000 (restated)
Operating activities		
Profit/(loss) for the year (note 5)		
– Continuing operations	**104,211**	15,079
– Discontinued operation	**12,776**	(29,589)
Income tax – discontinued operation (note 16(b))	**63**	476
Profit/(loss) before taxation	**117,050**	(14,034)
Adjustments for:		
Equity compensation benefit	**52**	52
Loss on disposal of subsidiaries (note 16 (a))	**8,021**	–
Interest payable waived by Probest (note 16(b))	**(23,198)**	–
Finance costs	**12,316**	13,867
Share of profits less losses of associates	**(6,900)**	(20,265)
Gains on disposal of land use rights and buildings	**–**	(3,608)
Bank interest income	**(1,528)**	(1,094)
Deficit on revaluation of property, plant and equipment	**–**	182
Loss/(gain) on disposal of property, plant and equipment	**5**	(1,035)
Depreciation	**8,914**	11,245
Amortisation of land use rights	**–**	246
Impairment of property, plant and equipment	**–**	4,988
Provision for impairment on investments in associates	**–**	162
Impairment of trade receivables and other receivables	**–**	352
Impairment of inventories	**1,151**	5,788
Operating profit/(loss) before working capital changes	**115,883**	(3,154)
(Increase)/decrease in trade receivables	**(54,852)**	13,664
Decrease in bills receivable	**78**	236
Increase in prepayments, deposits and other receivables	**(112,961)**	(8,933)
Increase in inventories	**(32,040)**	(26,115)
Decrease in net amounts due from associates	**1,864**	543
Decrease in amounts due from related companies	**–**	437
Increase in trade payables	**51,992**	7,980
Increase in amounts due to directors	**1,942**	–
Increase in accruals and other payables	**29,298**	772
Increase in amounts due to related companies	**33,569**	–
Decrease in provision for long service payments	**–**	(61)
Cash generated from/(used in) operations	**34,773**	(14,631)
Overseas tax paid	**(63)**	(476)
Net cash generated from/(used in) operating activities	**34,710**	(15,107)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000 (restated)
Investing activities		
Interest received	**1,528**	1,094
Dividends received from associates	**4,000**	8,000
Disposal of subsidiaries (note 30)	**(52,007)**	–
Acquisition of additional investment in a subsidiary	**–**	(9,000)
Purchase of property, plant and equipment	**(1,630)**	(7,621)
Proceeds from disposal of property, plant and equipment	**–**	1,055
Proceeds from disposal of land use rights	**–**	28,000
Net cash (used in)/generated from investing activities	**(48,109)**	21,528
Net (decrease)/increase in cash and cash equivalents	**(13,399)**	6,421
Effect of foreign exchange rate changes	**6,346**	–
	(7,053)	6,421
Cash and cash equivalents at 1 January	**37,395**	30,974
Cash and cash equivalents at 31 December	**30,342**	37,395
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**30,342**	7,404
Time deposits with original maturity of less than three months when acquired	**–**	29,991
	30,342	37,395

The notes on pages 33 to 86 form an integral part of these financial statements.

1. General information

Yun Sky Chemical (International) Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong. The Company and its subsidiaries (collectively "the Group") is principally engaged in the manufacture and sale of phosphorus and PVC products and the design, manufacture and sale of optical products.

Pursuant to the special resolution passed at the Company's extraordinary meeting held on 20 December 2007, the name of the Company was subsequently changed from "Swank International Manufacturing Co., Ltd." to "Yun Sky Chemical (International) Holdings Limited" with effect on 2 January 2008.

During 2006 and 2007, the Company entered into certain leasing agreements with Yunnan Phosphorus Group Co., Ltd and its subsidiaries (the "Yunphos Group ") under which the Group leases the premises, plant and machinery and equipment for the manufacture of phosphorus and PVC products, and certain agreements for the purchases of coal, phosphorus raw materials, PVC ancillary materials and phosphorus ancillary materials, sales of phosphorus products and PVC products as referred to the Company's circulars dated 8 August 2007 and 2 June 2006. The transactions with the Yunphos Group are set out in note 32(a) to the financial statements.

During the year, with a view to rationalize the Group's business, the Group discontinued the optical business by disposing its entire 70% equity interest in Profitown Investment Corporation and its subsidiaries (the "Profitown Group") to an independent third party as referred to note 30 to the financial statements.

The financial statements are presented in Hong Kong dollars, unless otherwise stated.

2. Summary of significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited ("Listing Rule"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and interpretations issued by the HKICPA. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

2. Summary of significant accounting policies*(Continued)*

(b) Basis of preparation (cont'd)

On 2 November 2007, the Company and Asset Up Limited ("Asset Up"), an independent third party, entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Asset Up agreed to purchase 70% equity interest in the Profitown Group at a nominal consideration of HK$1.0 in cash. The disposal was completed on 30 November 2007. In accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" issued by the HKICPA, the results and cash flows of the operations of the Profitown Group have been presented as discontinued operations. The 2006 comaprative figures in the income statement and statement of cash flow were restated to reflect the disposal of Profitown Group accordingly. For detailed information, please refer to note 16.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

In the current year, the Group adopted the new/revised standards and interpretations to the published standards below, which are relevant to its operation.

HKFRS 7	Financial Instrument: Disclosures
HKAS 1 Amendment	Presentation of Financial Statements: Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new/revised standards and interpretations did not result in any substantial changes to the Group's accounting policies, except for disclosures relating to financial instruments made in the financial statements.

The Group has not adopted the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

2. Summary of significant accounting policies (cont'd)

(b) Basis of preparation (cont'd)

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

(c) Basis of consolidation

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net asset of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is sated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. Summary of significant accounting policies (cont'd)

(d) Associate

An associate is an entity in which the Group and the Company has significant influence, but not control or joint control, over its management, including participation in the consolidated financial statements.

An investment in associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate. The consolidation income statement of the Group includes its share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Profits and losses resulting from the Group's transactions with the associate are eliminated to the extent of the Group's relevant interests in the associate, except where the losses provide evidence of an impairment of the asset transferred in which case losses are recognised immediately for the impairment.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings are self-use buildings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economics benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts less their residual values over their estimated useful lives as follows:

Buildings	Over the lease term
Plant and machinery	10-15 years
Furniture and fixtures	10 years
Motor vehicles	5 years

The asset's residue values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2. Summary of significant accounting policies (cont'd)

(e) Property, plant and equipment (cont'd)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(f) Construction in progress

Construction in progress is stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the development of the asset which comprises construction costs, amortization of land use rights, borrowing costs and professional fees incurred during the development period. On completion, the assets are transferred to the buildings within property, plant and equipment or to investment properties.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(g) Operating leases

Leases where substantially all the rewards and risk of ownership remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

(h) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

2. Summary of significant accounting policies (cont'd)

(h) Impairment of assets (cont'd)

(i) Impairment of trade and other receivables (cont'd)

– For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts); and

– investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

– Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest Group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. Summary of significant accounting policies (cont'd)

(h) Impairment of assets (cont'd)

(ii) Impairment of other assets (cont'd)

– Recognition of impairment losses

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an assets, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

(i) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. Summary of significant accounting policies (cont'd)

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost without any difference between cost and redemption value being recognised in the consolidated income statement over the period of borrowings using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measures in accordance, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Bank overdrafts, if any, that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2. Summary of significant accounting policies (cont'd)

(n) Income tax (cont'd)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. Summary of significant accounting policies (cont'd)

(n) Income tax (cont'd)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. Summary of significant accounting policies (cont'd)

(p) Foreign currency transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at year-end exchange rates of monetary assets and liabilities, denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sales financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all group entities that have functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- income and expenses for each income statement are translated at average rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

  On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of gain or loss on sale.

2. Summary of significant accounting policies (cont'd)

(q) Employees benefits

(i) Employment Ordinance long service payments

Certain employees of the Group have completed the required number of years of service under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong (the "Employment Ordinance") to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Employment Ordinance.

(ii) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(iii) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

2. Summary of significant accounting policies (cont'd)

(q) Employees benefits (cont'd)

(iv) Share-based compensation

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

During the vesting period, the number of share options expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(r) Revenue recognition

Provided it is probable that the economics benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Sales of goods

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Sales of services

Commission and management fee income are recognised when the related services are rendered.

2. Summary of significant accounting policies (cont'd)

(r) Revenue recognition (cont'd)

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Dividend income

Dividend income is recognised when the right to received payment is established.

(v) Government grants

Unconditional government grants are recognised as revenue when the grants become receivable.

(s) Related parties

Parties are considered to be related to the Group if:

(i) the party has the ability, directly, or indirectly through one or more intermediaries, to control the Group or excise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close member of the family of any individual referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influence by, that individual in their dealings with the entity.

(t) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

2. Summary of significant accounting policies (cont'd)

(u) Financial guarantees

A financial guarantee (a kind of insurance contract) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The Group does not recognise liability for financial guarantees at inception, but perform a liability adequacy test at each reporting date by comparing its carrying amount of the net liability regarding the financial guarantee with its present legal or constructive obligation amount. If the carrying amount of the net liability is less than its present legal or constructive obligation amount; the entire difference is recognised in the income statement immediately.

(v) Discontinued operations

A discontinued operation is a component of the Group that may be a major line of business or geographical area of operations that has been disposed of or is held for sale. The results of that component are separately reported as ("discontinued operations") in the income statement. The comparative income statement and cashflow statement are restated as if the operation had been discontinued from the start of the comparative period. The assets and liabilities of such component classified as "discontinued operations" or "held for sale" is presented separately in the assets and liabilities, respectively, of the consolidated balance sheet, from the date it is first determined to be discontinued or held for sale.

(w) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3. Financial risk management

The Group's principal financial instruments, comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables which arises directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, commodity price risk and foreign currency risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months from the date of billing are requested to settle all outstanding balances before any further credit is granted.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. Further quantitative analysis in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in notes 20 and 21.

At the balance sheet date, the Group has a certain concentration of credit risk as 36% (2006: 19%) and 60% (2006: 60%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2007, respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institution with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

3. Financial risk management (cont'd)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The following table shows that time periods after the balance sheet date during which contractual payments, presented on an undiscounted basis, are due to be made. These payments include, among others, interest payments computed using contractual rates (or fixed rate instruments) under the Group's non-derivative financial liabilities which are due to be paid.

Group

	2007			2006			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Between 1 to 2 years HK$'000
Trade, accruals and other payables	96,000	96,000	96,000	36,746	36,746	36,746	–
Amount due to Probest/ promissory note payable*	–	–	–	180,914	180,914	127,335	53,579
Amounts due to related companies	39,634	39,634	39,634	11,460	11,460	11,460	–
Amounts due to associates	–	–	–	6,729	6,729	6,729	–
Amounts due to directors	1,942	1,942	1,942	–	–	–	–
Tax payable	–	–	–	845	845	845	–
	137,576	137,576	137,576	236,694	236,694	183,115	53,579

* Interest payable on promissory note was waived during the year.

Company

	2007			2006			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Between 1 to 2 years HK$'000
Other payables and accruals	2,704	2,704	2,704	1,564	1,564	1,564	–
Amount due to a subsidiary	13,087	13,087	13,087	7,809	7,809	7,809	–
	15,791	15,791	15,791	9,373	9,373	9,373	–

3. Financial risk management (cont'd)

(c) Interest rate risk

(i) Interest rate profile

The Group's interest rate risk arises primarily from cash at bank. The following table details the interest rate profile of the Group's and the Company's interest-generating financial assets at the balance sheet date:

Group

	2007		2006	
	Effective interest rate	**HK$'000**	Effective interest rate	HK$'000
Short-term bank deposits	**–**	**–**	0.8% to 2.6%	29,991
Cash and cash equivalents	**2.6%**	**30,342**	0.8% to 2.6%	7,404

Company

	2007		2006	
	Effective interest rate	**HK$'000**	Effective interest rate	HK$'000
Cash and cash equivalents	**2.6%**	**16**	2.6%	13

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease 100 basis points in interest rates, with all other variable held constant, would increase/decrease the Group's profit after tax and retained profit for the year approximately HK$303,000 (2006: HK$374,000). Other components of equity would not be affected (2006: nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(d) Commodity price risk

The major raw material used in the production of the Group's products included phosphorus and coal. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

3. Financial risk management (cont'd)

(e) Business risk

The Group entered into a series of agreements with Yunphos Group which are to expire in 31 December 2008 and 2009 as referred to note 32 (a). Should the renewal of the relevant agreements were not successfully made, the Group might not be able to sustain its operations and the profitability might be adversely affected.

For the continuing operations, the Group' sales are primarily made to several major customers. The Group has a certain concentration of business risk as 64% (2006: 59%) of the total sales were made from the Group's five largest customers. In the event that these customers ceased to purchase from the Group and the Group could not secure orders from other customers, the Group's turnover and profitability would be adversely affected.

For the continuing operations, the Group's purchases of raw materials are primarily from a related company and several major suppliers. Although the Group has entered into co-operative agreement with the related company which accounted for 40% (2006: 41%) of total purchases, there can be no assurance that the related company will continue to supply the Group as and when needed. The Group has a certain concentration of business risk as 69% (2006: 61%) of the total purchases were from the Group's five largest suppliers. If the Group could not purchase adequate quantities of materials from these suppliers and failed to identify alternative sources, the Group's turnover and profitability could be adversely affected.

(f) Concentration risk

The Group has extensive transactions including purchases of raw materials, sales of finished products, renting of premises and plant and machinery with related parties in its ordinary course of business. All these transactions are carried out at terms similar to those obtained from outsiders and have been reflected in note 32(a) to the financial statements. Interruption or reduction of supply of raw materials and sale of finished products could adversely affect the Group's financial performance.

(g) Foreign currency risk

The Group is exposed to currency risk primarily through bank deposits that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily US dollars and Renminbi.

(i) Exposure to currency risk

The following table details the Group's and the Company's major exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**30,342**	37,395	**16**	13

3. Financial risk management (cont'd)

(g) Foreign currency risk (cont'd)

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes bank deposits where the denomination of the balances is in a currency other than the functional currency.

	2007			2006		
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	**Effect on other components of equity HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000	Effect on other components of equity HK$'000
US dollars	**5%**	**24**	**–**	5%	–	–
	(5%)	**(24)**	**–**	(5%)	–	–
Renminbi	**5%**	**1,471**	**–**	5%	338	–
	(5%)	**(1,471)**	**–**	(5%)	(338)	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

(h) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

Consistent with the industry practice, the Group monitors its capital structure on the basis of net debt-to-capital ratio, which is calculated as the Group's total borrowings as shown in consolidated balance sheet less cash and cash equivalents. Debt-to-capital is defined as shareholders' equity over the Group's total debts.

3. Financial risk management (cont'd)

(h) Capital management (cont'd)

The net debt-to-capital ratio as at 31 December 2007 and 2006 were as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Total liabilities		
– Trade and accruals and other payables	**96,000**	36,746
– Amount due to a shareholder, Probest	**–**	53,579
– Promissory note payable to Probest	**–**	127,335
– Amounts due to related companies	**39,634**	11,460
– Amounts due to associates	**–**	6,729
– Amounts due to directors	**1,942**	–
– Tax payable	**–**	845
– Provision for long service payments	**–**	115
Total debts	**137,576**	236,809
Less: Short-term bank deposits	**–**	(29,991)
Less: Cash and bank balances	**(30,342)**	(7,404)
Adjust net debts	**107,234**	199,414
Shareholders' equity	**112,622**	(8,784)
Net debt-to-capital ratio	**0.95**	N/A

Neither the Company nor any of it subsidiaries are subject to externally imposed capital requirements.

(i) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Liquid or/and short-term assets and liabilities

For financial assets and financial liabilities that are liquid or having a short term maturity it is assumed that the carrying amounts approximate their fair values. The assumption is applied to trade and bills and other receivables, trade and bills and other payables, cash and cash equivalents without a specific maturity and variable rate financial instruments.

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

4. Critical accounting estimates and judgements (cont'd)

(a) Impairment of trade receivables, prepayments deposits and other receivables

The Group makes allowance for impairment of trade and other receivables based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are made with reference to age analysis of inventories, projection of expected sale volume and management experience and judgement. Based on this review, write down of inventories will be made when the carrying amounts to inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(c) Useful lives and residual values of property, plant and equipment

Useful lives of the Group's property, plant and equipment are defined as the period over which they are expected to be available for use by the Group. This estimate is base on the historical experience of the actual useful lives of property, plant and equipment or similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciation lives and residual lives and therefore depreciable expense in future periods.

(d) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculations or market valuations. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which requires significant judgement relating to such items such as level of turnover and amount of operating costs. No impairment was provided during the year.

4. Critical accounting estimates and judgements (cont'd)

(e) Income taxes

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Turnover and segment information

The Group is principally engaged in the manufacture and sale of phosphorus products and PVC products and the design, manufacture and sale of optical products during the years ended 31 December 2007 and 2006.

Turnover represents the sales value of goods sold to customers net of sales tax, value added tax, goods returns and allowances. An analysis of the Group's turnover for the year, for both continuing and discontinued operations is as follows:

	2007 **RMB'000**	2006 RMB'000
Turnover		
Continuing operations		
Sales of phosphorus products	**373,047**	119,560
Sales of PVC products	**93,959**	–
	467,006	119,560
Discontinued operation		
Sales of optical products	**114,828**	115,641
	581,834	235,201

Business segments

The Group is principally engaged in three main business segments during the years ended 31 December 2007 and 2006:

Phosphorus business	–	manufacture and sales of phosphorus products
PVC business	–	manufacture and sales of PVC products
Optical business	–	manufacture and sales of optical products (discontinued on 30 November 2007)

Particulars in respect of discontinued operation relating to optical business segment are set out in note 16.

5. Turnover and segment information (cont'd)

The segment results and capital expenditure and other segment items for the year ended 31 December 2007 and segment assets and liabilities at 31 December 2007 are as follows:

2007

	Continuing operations				Discontinued operation	
	Phosphorus business HK'000	PVC business HK'000	Unallocated HK'000	Subtotal HK'000	Optical business HK'000	Consolidated HK'000
Segment revenue:						
Revenue from external customers	373,047	93,959	–	467,006	114,828	581,834
Other revenue	1,300	774	588	2,662	4,614	7,276
Total revenue	374,347	94,733	588	469,668	119,442	589,110
Segment results	33,306	79,561	–	112,867	3,080	115,947
Unallocated expenses, net	–	–	(8,656)	(8,656)	–	(8,656)
Finance costs	–	–	–	–	(12,318)	(12,318)
Share of profits and losses of:						
Associates	–	–	–	–	6,900	6,900
Operating profit/(loss) before income tax	–	–	–	104,211	(2,338)	101,873
Loss on disposal of subsidiaries	–	–	–	–	(8,021)	(8,021)
Interest payable waived by Probest					23,198	23,198
Income tax	–	–	–	–	(63)	(63)
Profit for the year	–	–	–	104,211	12,776	116,987
Assets and liabilities:						
Segment assets	139,962	111,660	–	251,622	–	251,622
Unallocated assets	–	–	8,576	8,576	–	8,576
Total assets				260,198	–	260,198
Segment liabilities	104,071	17,362	–	121,433	–	121,433
Unallocated liabilities	–	–	16,143	16,143	–	16,143
Total liabilities				137,576	–	137,576
Other segment information:						
Capital expenditure	1,452	–	–	1,452	–	1,452
Depreciation	6	–	23	29	8,885	8,914

5. Turnover and segment information (cont'd)

The segment results and capital expenditure and other segment items for the year ended 31 December 2006 and segment assets and liabilities at 31 December 2006 are as follows:

2006

	Continuing operations				Discontinued operation	
	Phosphorus business HK'000	PVC business HK'000	Unallocated HK'000	Subtotal HK'000	Optical business HK'000	Consolidated HK'000
Segment revenue:						
Revenue from external customers	119,560	–	–	119,560	115,641	235,201
Other revenue	1,697	–	–	1,697	2,791	4,488
Total revenue	121,257	–	–	121,257	118,432	239,689
Segment results	21,603	–	–	21,603	(39,992)	(18,389)
Unallocated expenses, net				(6,524)	–	(6,524)
Finance costs				–	(13,867)	(13,867)
Provision for impairment loss on investment in an associate				–	(162)	(162)
Gain on disposal of land use rights and buildings				–	3,608	3,608
Gain on disposal of property, plant and equipment				–	1,035	1,035
Share of profits and losses of associates				–	20,265	20,265
Loss before income tax				15,079	(29,113)	(14,034)
Income tax				–	(476)	(476)
Loss for the year				15,079	(29,589)	(14,510)
Assets and liabilities:						
Segment assets	28,105	–	–	28,105	149,233	177,338
Interests in associates	–	–	–	–	50,100	50,100
Unallocated assets	–	–	587	587	–	587
Total assets				28,692	199,333	228,025
Segment liabilities	(15,115)	–	–	(15,115)	(38,371)	(53,486)
Unallocated liabilities	–	–		–	(183,323)	(183,323)
Total liabilities				(15,115)	(221,694)	(236,809)
Other segment information:						
Capital expenditure	(14)	–	–	(14)	(7,607)	(7,621)
Depreciation	(26)	–	–	(26)	(11,465)	(11,491)
Provision for impairment of plant and equipment	–	–	–	–	(4,988)	(4,988)
Significant non-cash expenses (other than depreciation)	–	–	–	–	(7,620)	(7,620)

5. Turnover and segment information (cont'd)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers.

	2007 RMB'000	2006 RMB'000
Continuing operations		
The PRC	**428,553**	45,222
East Asia	**36,858**	37,367
Europe	**–**	23,499
Others	**1,595**	13,472
	467,006	119,560
Discontinued operation		
The PRC	**3**	11,878
United States of America	**44,812**	45,970
Europe	**48,322**	45,627
Hong Kong	**16,302**	4,402
Others	**5,389**	7,764
	114,828	115,641

Most of the assets of the Group are located in the PRC. Accordingly, no geographical segment assets and capital expenditure are presented.

6. Other income-continuing operations

	2007 RMB'000	2006 RMB'000 (restated)
Bank interest income	**72**	58
Commission income received from a related company	**1,300**	1,696
Net exchange gain	**514**	–
Government grant	**774**	–
Others	**2**	–
	2,662	1,754

7. Profit from operations – continuing operations

Profit from continuing operations is stated after charging the following:

	2007 RMB'000	2006 RMB'000 (restated)
Directors' emoluments	**2,636**	2,636
Other staff costs	**14,200**	1,879
Contributions to retirement benefit scheme	**1,460**	53
Total staff costs	**18,296**	4,568
Auditor's remuneration		
– audit service	**550**	750
– non-audit services	**310**	–
Cost of inventories sold	**332,658**	90,467
Depreciation of property, plant and equipment	**29**	26
Operating lease rentals in respect of properties, machinery and equipment	**37,476**	742

8. Directors' remuneration

Directors' remuneration disclosed pursuant to the section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees HK$'000	**Salaries, allowances and benefits in kind** HK$'000	**Retirement scheme contributions** HK$'000	**2007 Total HK$'000**
Executive directors				
Zhao Jun	–	600	12	**612**
Li Wei	–	500	12	**512**
Zhou Jing	–	480	12	**492**
Wang An Kang	–	480	–	**480**
Independent non-executive directors				
Choi Tse Kit, Sammy	180	–	–	**180**
Wu Bin	180	–	–	**180**
Tam King Ching, Kenny	180	–	–	**180**
	540	2,060	36	**2,636**

8. Directors' remuneration (cont'd)

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	2006 Total HK$'000
Executive directors				
Zhao Jun	–	600	12	612
Li Wei	–	500	12	512
Zhou Jing	–	480	12	492
Wang An Kang	–	480	–	480
Independent non-executive directors				
Choi Tse Kit, Sammy	180	–	–	180
Wu Bin	180	–	–	180
Tam King Ching, Kenny	180	–	–	180
	540	2,060	36	2,636

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

9. Individual highest emoluments

The five highest paid employees during the year include four directors (2006: one). Details of the remuneration of the remaining one (2006: four) non-director, highest paid employee is as follows:

	2007 RMB'000	2006 RMB'000
Salaries, allowances and benefits in kind	**953**	2,930
Equity compensation benefits	**52**	52
Pension contributions	**12**	46
	1,017	3,028

The remuneration of above remaining one (2006: four) non-director, highest paid employee fell within the following bands:

	Number of employees	
	2007	2006
Nil – HK$1,000,000	**–**	4
HK$1,000,000 – 1,500,000	**1**	–
	1	4

10. Income tax – continuing operations

	2007 RMB'000	2006 RMB'000
Current year		
Hong Kong Profit Tax	**–**	–
PRC enterprise income tax	**–**	–

No provision has been made for the Hong Kong Profits Tax as the Group sustained losses in Hong Kong for taxation purposes during both years.

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC enterprise income tax of the Group's subsidiaries, 防城港華海化工有限公司 ("華海") and昆明華甸化工有限公司 ("華甸") is 30% and the local income tax at 3%. The subsidiaries are granted certain tax relief, under which they are exempted from the PRC enterprise income tax for the first two profit making years and entitled to an income tax reduction of 15% for the next three years with full exemption from local income tax. As the first profit making of 華海 and 華甸 was 2006 and 2007, respectively, they were entitled to full exemption from the PRC enterprise income tax and local income tax during the year ended 31 December 2007.

The National People's Congress of the PRC approved the Corporate Income Tax Law of the PRC (the "New Tax Law") on 16 March 2007. With effective from 1 January 2008, the tax rate applicable to the enterprises established in the PRC will be unified at 25% with certain grandfather provisions and preferential provisions. The change in tax rate does not have any impact on the financial statements, as the New Tax Law was neither enacted nor substantially enacted by 31 December 2007.

The charge for the years can be reconciled to the profit/(loss) per the consolidated income statement as follows:

	2007 RMB'000	2006 RMB'000 (restated)
Profit/(loss) before taxation	**116,987**	(14,510)
National tax on profit before taxation, calculated at rates applicable to profit in the countries concerned	**28,448**	3,689
Tax effect on non-taxable income	**(2,970)**	(5,906)
Tax effect on unused tax losses not recognised	**1,519**	142
Effect of tax exemptions granted to PRC subsidiaries	**(26,997)**	2,075
Taxation charge	**–**	–

11. Profit/(loss) attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a loss of approximately HK$5,977,000 (2006: loss of approximately HK$6,015,000) which has been dealt with in the financial statements of the Company.

12. Dividends

No dividend was paid or proposed for the years ended 31 December 2007 and 2006, nor has any dividend been proposed since the balance sheet date.

13. Earnings/(loss) per share

	2007	2006
For continuing and discontinued operations		
Profit/(loss) attributable to equity holders of the Company (HK$'000)	**116,022**	(5,632)
Weighted average number of ordinary shares	**3,124,862,734**	3,124,862,734
Basic earnings/(loss) per share (HK cents)	**3.71**	(0.18)
Continuing operations		
Profit attributable to equity holders of the Company (HK$'000)	**104,211**	15,079
Weighted average number of ordinary shares	**3,124,862,734**	3,124,862,734
Basic earnings per share (HK cents)	**3.33**	0.48
Discontinued operation		
Profit/(loss) attributable to equity holders of the Company (HK$'000)	**11,811**	(20,711)
Weighted average number of ordinary shares	**3,124,862,734**	3,124,862,734
Basic earnings/(loss) per share (HK cents)	**0.38**	(0.66)

The basic earnings/(loss) per share is based on the weighted average number of shares of 3,124,863,734 (2006: 3,124,863,734) for the year.

The diluted earnings per share is based on 3,131,414,458 shares which is the weighted average number of shares during the year adjusted for the number of dilutive potential shares issued under the share option scheme. The computation of diluted loss per share for the year ended 31 December 2006 did not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share from continuing operations.

14. Property, plant and equipment

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1/1/2006	35,910	169,391	67,968	2,189	275,458
Additions	–	3,308	4,313	–	7,621
Disposal	(17,310)	(11,624)	(21,189)	(647)	(50,770)
Deficit on revaluation	(1,013)	–	–	–	(1,013)
At 31/12/2006 and at 1/1/2007	17,587	161,075	51,092	1,542	231,296
Additions	–	334	335	497	1,166
Write off	–	(9)	–	(80)	(89)
Disposal of subsidiaries (note 30)	(17,587)	(161,314)	(51,206)	(1,953)	(232,060)
At 31/12/2007	–	86	221	6	313
Accumulated depreciation and impairment					
At 1/1/2006	–	140,755	52,106	2,189	195,050
Depreciation for continuing operations (note 7)	–	–	26	–	26
Depreciation for discontinued operation (note 16(d))	1,372	7,037	2,810	–	11,219
Written back on disposal	(541)	(11,624)	(21,169)	(647)	(33,981)
Impairment recognised	–	4,214	774	–	4,988
Deficit on revaluation	(831)	–	–	–	(831)
At 31/12/2006 and at 1/1/2007	–	140,382	34,547	1,542	176,471
Depreciation for continuing operations (note 7)	–	1	27	1	29
Depreciation for discontinued operation (note 16(d))	733	5,453	2,681	18	8,885
Write off	–	(4)	–	(80)	(84)
Written back on disposal of subsidiaries (note 30)	(733)	(145,831)	(37,202)	(1,480)	(185,246)
At 31/12/2007	–	1	53	1	55
Net book value					
At 31/12/2007	–	85	168	5	258
At 31/12/2006	17,587	20,693	16,545	–	54,825

The Group's leasehold land and buildings were held on medium term and were situated in Mainland PRC and were disposed of during the year.

15. Construction in progress

Group

	2007 **HK$'000**	2006 HK$'000
At 1 January	**–**	–
Additions	**464**	–
At 31 December	**464**	–

Construction in progress as at 31 December 2007 represented plant and machinery under construction.

16. Discontinued operation

On 2 November 2007, the Company and Asset Up Limited ("Asset Up"), independent third party, entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Asset Up agreed to purchase 70% equity interest in Profitown Investment Corporation ("Profitown") and its subsidiaries (collectively referred to as the "Profitown Group") at a nominal consideration of HK$1.0 in cash. The disposal was completed on 30 November 2007. Profitown Group had been making loss for the past five years and had net assets of approximately HK$ zero and total liabilities of HK$196,743,000, of which, HK$170,033,000 was payable to Probest at the date of disposal. Details are set out in the Company's circular dated 28 November 2007.

During the year and up to the disposal date, Probest waived interests of approximately HK$23,198,000 payable by the Profitown Group which has been credited to Profitown Group's income statement for the period up to disposal date.

Upon completion of the disposal, the manufacture and sale of optical business of Profitown Group was discontinued, the results and cash flows of the Profitown Group for the year ended 31 December 2006 are presented as discontinued operation.

16. Discontinued operation (cont'd)

(a) The profit from the discontinued operation is analysed as follows:

	From 1 January 2007 to 30 November 2007 HK$'000	For the year ended 31 December 2006 HK$'000
Profit/(loss) of Profitown Group after income tax *(note (b))* below	**20,797**	(29,589)
Loss on disposal *(note 30)*	**(8,021)**	–
	12,776	(29,589)

(b) Analysis of the operating loss of discontinued operation

	From 1 January 2007 to 30 November 2007 HK$'000	For the year ended 31 December 2006 HK$'000
Turnover	**114,828**	115,641
Cost of sales	**(98,231)**	(118,326)
Gross profit/(loss)	**16,597**	(2,685)
Other income	**3,158**	2,734
Bank interest income	**1,456**	1,094
Selling and distribution costs	**(9,524)**	(13,729)
Administrative expenses	**(6,204)**	(10,108)
Other operating expenses	**(2,405)**	(11,093)
Finance costs paid to Probest	**(12,316)**	(13,867)
Gain on disposal of land use rights and buildings	**–**	3,608
Deficit on revaluation of property, plant and equipment	**–**	(182)
Impairment of property, plant and equipment	**–**	(4,988)
Impairment on investment in an associate	**–**	(162)
Share of results of associates	**6,900**	20,265
Operating loss from discontinued operation before income tax and accrued interests waived by Probest	**(2,338)**	(29,113)
Accrued interests waived by Probest	**23,198**	–
Income tax	**(63)**	(476)
Profit/(loss) from discontinued operation after income tax	**20,797**	(29,589)

16. Discontinued operation (cont'd)

(c) Analysis of the cash flows from discontinued operation

	From 1 January 2007 to 30 November 2007 HK$'000	For the year ended 31 December 2006 HK$'000
Net cash inflow/(outflow) from operating activities	**10,613**	(15,107)
Net Cash inflow from investing activities	**4,707**	30,615
Net cash inflow from financing activities	**–**	–
Cash flow from discontinued operation	**15,320**	15,508

(d) Expenses – discontinued operation

	From 1 January 2007 to 30 November 2007 HK$'000	For the year ended 31 December 2006 HK$'000
Auditors' remuneration		
– Current year	**380**	270
– Under/(over) provision in prior year	**80**	(20)
	460	250
Cost of inventories sold	**98,231**	118,326
Depreciation of property, plant and equipment	**8,885**	11,219
Staff costs	**34,604**	48,016
Operating lease rentals in respect of properties	**474**	503

(e) Operating lease commitments – discontinued operation

	At 30 November 2007 HK$'000	At 31 December 2006 HK$'000
Within one year	**228**	679
In the second to fifth year inclusive	**684**	–
	912	679

For the year ended 31 December 2007

17. Investments in subsidiaries

	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted shares, at cost	**4**	1,090
Less: Impairment loss	**–**	(1,081)
	4	9
Amount due to a subsidiary	**13,087**	7,809

The following is a list of the principal subsidiaries at 31 December 2007:

Name	Country/place of incorporation/ establishment and operation	Principal activities	Nominal value of issued ordinary/ registered share capital	Interest held Directly	Interest held Indirectly
Anchorage Trading Limited	Hong Kong	Sales agent of an overseas principal	HK$1	100%	–
防城港華海化工有限公司(note)	PRC	Manufacture and sale of phosphorus products	HK$5,000,000	–	100%
昆明華甸化工有限公司(note)	PRC	Manufacture and sale of phosphorus and PVC products	HK$10,500,000	–	100%

Note: These entities are wholly foreign owned enterprises established in the PRC.

The amount due to a subsidiary is unsecured, interest free and has no fixed term of repayment.

18. Interests in associates

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**–**	–
Share of net assets	**–**	145,412
Less: Impairment loss	**–**	(100,191)
	–	45,221
Amounts due from associates	**–**	4,879
	–	50,100
Amounts due to associates	**–**	(6,729)

The amounts due from/(to) were unsecured, interest free and repayable on demand.

The associates were disposed of during the year as referred to notes 16 and 30 to the financial statements.

19. Inventories

	Group 2007 HK$'000	2006 HK$'000
Raw materials	**21,949**	19,512
Packaging materials	**3,535**	–
Work in progress	**648**	13,431
Finished goods	**23,549**	10,315
Sub materials and parts	**7,793**	–
	57,474	43,258

20. Trade receivables

(a) Ageing analysis

The Group normally grants a credit period of 30 to 180 days to its customers.

Aging analysis of trade receivables as of the balance sheet date was as follows:

	Group 2007 HK$'000	2006 HK$'000
Current to 30 days	**46,745**	26,354
31 to 60 days	**784**	1,811
61 to 90 days	**4**	517
More than 90 days	**–**	2,987
	47,533	31,669
Less: allowance for doubtful debts	**–**	(1,919)
	47,533	29,750

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

20. Trade receivables (cont'd)

(b) Impairment of trade receivables (cont'd)

The movements in the allowance for doubtful debts during the year are as follows:

	Group	
	2007	2006
	HK$000	HK$000
At 1 January	**1,919**	1,571
Disposal of subsidiaries	**(1,919)**	348
At 31 December	**–**	1,919

The Group does not hold any collateral over these balances.

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Neither past nor impaired	**47,533**	26,354
Current to 30 days	**–**	1,811
31 to 60 days	**–**	517
61 to 90 days	**–**	1,068
	47,533	29,750

Receivables that were neither past due or impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21. Prepayments, deposits and other receivables

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances to suppliers	**112,704**	–	**–**	–
Value added tax refundable	**9,898**	1,418	**–**	–
Prepayments	**1,026**	7,396	**676**	379
Deposits	**444**	417	**393**	195
Other receivables	**55**	3,388	**–**	–
	124,127	12,619	**1,069**	574

Prepayments mainly represent the advances made to independent third party suppliers to secure the supply of coal and phosphorus materials which are to be offset against of the delivery of the purchases of coal and phosphorus materials from them in the coming year. In the opinion of the directors of the Company, the carrying amounts approximate their fair value at the balance sheet date.

22. Cash and cash equivalents

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**30,342**	7,404	**16**	13
Short-term bank deposits	**–**	29,991	**–**	–
	30,342	37,395	**16**	13

The effective interest rates and average maturity of short-term bank deposits are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Effective interest rate (% per annum)	**2.6%**	0.8 to 2.6%	**2.6%**	2.6%

23. Trade payables

The ageing analysis of the Group's trade payables, based on payment due date, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Current to 30 days	**30,082**	15,885
31 to 60 days	**18,165**	3,062
61 to 90 days	**557**	941
More than 90 days	**13,042**	682
	61,846	20,570

24. Accruals and other payables

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**3,499**	13,562	**2,704**	1,564
Receipts in advance	**22,229**	–	**–**	–
Value added tax payable	**7,430**	1,709	**–**	–
Other payables	**996**	905	**–**	–
	34,154	16,176	**2,704**	1,564

Receipts in advance represented the deposits received on sales orders from customers, which are unsecured, interest-free and to be offset against the invoiced amounts of sales of goods in the coming year.

25. Amount due to a shareholder, Probest/promissory note payable

The amount due to Probest and promissory note payable were unsecured, bearing interest at a rate equivalent to 1% over the prevailing Hong Kong prime rate per annum. The balances were disposed of during the year and out of the debts due by the Group at the disposal date, Probes waived HK$23,198,000 as referred to note 16 to the financial statements.

26. Deferred taxation

The principal component of the Group's and the Company's net deferred tax asset position not recognised in the financial statements is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unused tax losses	**34,942**	136,145	**34,153**	33,099

The Group has not recognised deferred assets in respect of cumulated tax losses of HK$199,668,000 (2006: HK$777,971,000) as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction. The tax losses arising from Hong Kong do not expire under current tax legislation.

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

27. Share capital

	2007	2006
	HK$'000	HK$'000
Authorised:		
300,000,000,000 ordinary shares of HK$0.01 each	**3,000,000**	3,000,000
Issued and fully paid:		
3,124,862,734 (2006: 3,124,862,734) ordinary shares of HK$0.01 each	**31,249**	31,249

There were no movements in the issued share capital of the Company for both years.

28. Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 28 May 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, up to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

28. Share option scheme (cont'd)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The share option may be exercised under the Scheme at any time during a period not exceeding 5 years after the date when the scheme option is granted and expiring on the last date of such period.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following table shows the movement of the Company's share options during the years ended 31 December 2007 and 2006.

Employee

Date of share options granted	Outstanding at the beginning of the year	Granted during the year	Exercise during the year	Outstanding at the end of the year	Subscription price	Exercise period
15/12/2005	10,000,000	–	–	10,000,000	HK$ 0.10	24/2/2008-23/8/2011

In assessing the theoretical aggregate value of the share options granted and fully accepted during the year, the Black-Scholes option pricing model has been used. In current year, an amount of share option expense of HK$52,000 (2006: HK$52,000) has been recognised.

28. Share option scheme (cont'd)

Share options granted and fully accepted during the year ended 31 December 2007:

Date of Grant: 15/12/2005
Vesting Period: 15/12/2005–23/02/2008
Exercise Period: 24/02/2008–23/08/2011
Exercise Price: HK$0.10 per share

	Number of share options granted at 15/12/2005	Share options value at 15/12/2005 (note ii) HK$	Number of share options at 31/12/2007
Grantee:			
Employee	10,000,000	112,000	10,000,000

Notes:

i) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK$0.075.

ii) According to the Black-Scholes model, the theoretical aggregate value of the options was estimated at HK$112,000 as at 15 December 2005 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	3.97%, being the approximate yield of the 4-year Exchange Fund Note traded on 15/12/2005
Expected Volatility	:	24.67%, being the annualised standard deviations of the continuously compounded rates of return on the share prices of three other comparable listed Hong Kong companies with similar business operations
Expected Life of the Options	:	4 years from the date of granting

iii) Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of Ordinary Shares available to be issued under the relevant share option scheme.

29. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity in the financial statements.

(b) Company

	Share premium account HK$'000	Special reserve HK$'000	Share options reserve HK$'000	Accumulated losses	Total
At 1 January 2006	723,462	341,800	–	(1,099,325)	(34,063)
Recognition of equity-settled share-based payment expenses	–	–	52	–	52
Profit for the year	–	–	–	(6,015)	(6,015)
At 31 December 2006 and at 1 January 2007	723,462	341,800	52	(1,105,340)	(40,026)
Recognition of equity-settled share-based payment expenses	–	–	52	–	52
Transfer on disposal of subsidiaries *(note)*	–	(341,800)	–	341,800	–
Loss for the year	–	–	–	(5,977)	(5,977)
At 31 December 2007	723,462	–	104	(769,517)	(45,951)

Note: Special reserve of HK$341,800,000 brought forward was created under a Court Ruling in 2003 while the Company applied for the capital reduction and was related to the write down of several subsidiaries of Profitown Investment Corporation (collectively the "Profitown Group"). The Court ruled out that as long as such subsidiaries still exit within the Group or proved to be zero value, such amount of special reserve should be retained. However, upon the disposal of the Profitown Group on 30 November 2007, the entire balance of HK$341,800,000 was transferred to accumulated losses as a reserve movement accordingly.

30. Disposal of subsidiaries

On 2 November 2007, the Company and Asset Up Limited ("Asset Up") entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Asset Up agreed to purchase 70% equity interest in the Profitown Group at a nominal consideration of HK$1.0 in cash. Further details were disclosed in note 16 to the financial statements.

	2007 HK$'000
The assets and liabilities disposed of at the date of disposal were as follows:	
Property, plant and equipment	46,814
Interests in associates	48,122
Inventories	16,673
Trade receivables	31,674
Prepayments, deposits and other receivables	1,453
Fixed deposits	44,767
Cash and cash equivalents	7,240
Amount due to a minority shareholder, Probest, net	(170,033)
Provision for long service payments	(115)
Amounts due to associates	(3,714)
Trade payables	(10,716)
Other payables	(11,320)
Tax payable	(845)
Net assets disposed of	–
Sale consideration (HK$1)	–
Exchange fluctuation reserve realised	(7,872)
Capital reserve realised	(8)
Minority interest, Probest	15,901
Loss on disposal *(note 16(a))*	(8,021)
Net cash outflow arising on disposal:	
Cash consideration (HK$1)	–
Bank balances and cash disposed of	(52,007)
	(52,007)

31. Commitments

(a) Operating lease commitments

At 31 December 2007, the Group and the Company had commitments for future minimum lease under non-cancellable operating leases in respect of premises, land and buildings which fall due as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000
Within one year	**105,886**	2,476	**1,393**	285
After 1 year but within 5 years	**82,282**	–	**2,031**	–
	188,168	2,476	**3,424**	285

The Group leases certain of its premises and warehouses under operating lease arrangements.

(b) Capital commitments

At 31 December 2007, the Group had the following commitments:

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted but not provided for:		
Construction of plant and machinery	**1,673**	–

32. Related party transactions

During the years ended 31 December 2006 and 2007, the directors are of the view that the following companies are related parties to the Group:

Name of the related party	**Relationship**
Rightlink Trading Limited	A director, Wang An Kang has beneficial interest
Yunnan Phosphorus Group Co., Ltd ("Yunphos")	Wang An Kang and Zhao Jun have beneficial interests
昆明東磷貿易有限公司	A subsidiary of Yunphos Group
尋甸南鋒煤業有限公司	A subsidiary of Yunphos Group
雲南南磷集團尋甸磷電有限公司	A subsidiary of Yunphos Group
雲南南磷集團電化有限公司	A subsidiary of Yunphos Group
雲南南磷集團進出口有限公司	A subsidiary of Yunphos Group
嵩明南西磷化工有限公司	A subsidiary of Yunphos Group
雲南南磷集團陸良磷化工有限公司	A subsidiary of Yunphos Group
防城港南磷磷化工有限公司	A subsidiary of Yunphos Group
Probest Holdings Inc ("Probest")	A minority shareholder of Profitown Investment Corporation (a former 70% – owned subsidiary of the Company)

32. Related party transactions (cont'd)

Mr Wang and Mr Zhao are the executive directors of the Company and the key management of the Group during the year.

(a) Recurring transactions

	Note	2007 HK$'000	2006 HK$'000
雲南南磷集團尋甸磷電有限公司			
– rental of phosphorus premises and machinery and equipment	32(a)(iv)	**20,484**	53
– purchases of coal	32(a)(viii)	**6,138**	–
– purchases of raw materials	32(a)(iii)	**25,150**	43,132
– purchases of PVC ancillary materials	32(a)(vii)	**1,349**	–
– purchases of phosphorus ancillary materials	32(a)(x)	**977**	–
雲南南磷集團電化有限公司			
– rental of PVC premises machinery and equipment	32(a)(vi)	**12,803**	–
– purchases of coal	32(a)(viii)	**391**	–
尋甸南鋒煤業有限公司			
– purchases of coal	32(a)(viii)	**3,558**	–
昆明東磷貿易有限公司			
– purchases of PVC ancillary materials	32(a)(vii)	**3,651**	–
– purchases of phosphorus ancillary materials	32(a)(x)	**2,709**	–
防城港南磷磷化工有限公司			
– sales of phosphorus products	32(a)(ii)	**(4,662)**	–
– rental of phosphorus premises, machinery and equipment	32(a)(v)	**2,561**	1,315
雲南南磷集團進出口有限公司			
– sales of phosphorus products	32(a)(ii)	**(178,652)**	(45,222)
– sales of PVC products	32(a)(ix)	**(11,048)**	–
– commission expenses	32(a)(i)	**687**	2,069
嵩明南西磷化工有限公司			
– purchases of raw materials	32(a)(iii)	**16,321**	14,530
雲南南磷集團陸良磷化工有限公司			
– purchases of raw materials	32(a)(iii)	**17,256**	34,600
Rightlink Trading Limited			
– commission income	32(a)(xi)	**(1,300)**	(1,696)

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business.

32. Related party transactions (cont'd)

(a) Recurring transactions (cont'd)

(i) Guangxi Agency Agreement

On 11 May 2006, the Group and Yunphos and its subsidiaries (the "Yunphos Group") entered into an agency agreement pursuant which Yunphos Group is engaged by the Group as an agent to provide agency services for the sale of phosphoric acid in Indonesia, Thailand, Australia and the United States for a term up to 31 December 2008 ("Guangxi Agency Agreement"). Under the terms of the agreement, the agency fee payable by the Group to Yunphos Group is charged at 3% of the invoiced amount of phosphoric acid sold by Yunphos Group on behalf of the Group. The agency fee was determined with reference to an agency arrangement for the sale of phosphorous-related products between an associate of Yunphos and an independent third party under which the agency fee is charged at 3% of the invoiced amount of the products sold by the independent agent on behalf of the associate of Yunphos Group. Under the terms of agreement, the agency fee charged by Yunphos Group will not higher than the agency fee charged by the independent third parties for similar agency arrangement ranging from 3% to 4%. The directors considered that the agency fee payable under the Guangxi Agency Agreement is fair and reasonable. Further details of the Guangxi Agency Agreement were set out in the Company's circular dated 2 June 2006. The Guangxi Agency Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 June 2006.

In accordance with the Guangxi Agency Agreement, commission expenses paid and payable to 雲南南磷集團進出口有限公司amounted to approximate HK$687,000 (RMB671,000) for the year ended 31 December 2007 (2006: HK$2,069,000 (RMB2,134,000)).

(ii) Guangxi Distribution Agreement

On 11 May 2006, the Group and Yunphos Group entered into a distribution agreement pursuant to which Yunphos Group purchases from the Group the phosphoric acid products for onward distribution to its customers for a term up to 31 December 2008 ("Guangxi Distribution Agreement"). Under the terms of the Guangxi Distribution Agreement, the price of phosphoric acid sold by the Group to Yunphos Group are not lower than the price available the price available to independent third parties for the same products sold by the Group. The invoiced amount for phosphoric acid products shall be settled within 30 days from the date of bill of lading. Further details were set out in the Company's circular dated 2 June 2006. Guangxi Distribution Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 June 2006.

In accordance with the Guangxi Distribution Agreement, sales of phosphoric acid products 雲南南磷集團進出口有限公司and防城港南磷磷化工有限公司in aggregate amounted to HK$183,314,000 (RMB178,983,000) (2006: HK$45,222,000 (RMB46,651,000)) for the year ended 31 December 2007.

32. Related party transactions (cont'd)

(a) Recurring transactions (cont'd)

(iii) Guangxi Raw Materials Purchase Agreement

On 11 May 2006, the Group and Yunphos Group entered into an agreement pursuant to which the Group will purchase yellow phosphorous from Yunphos Group for the production of phosphoric acid by the Guangxi Premises for a term up to 31 December 2008. The quantity and specification of yellow phosphorous supplied by Yunphos Group to the Group are subject to the requirements under each individual order placed by the Group to Yunphos Group from time to time. The price payable by Hauhai is determined after arm's length negotiation at a price level no higher than the price chargeable by independent third parties. The invoiced amount payable by the Group shall be settled within 30 days upon receipt of the relevant raw materials. The Guangxi Raw Materials Purchase Agreement provides that Yunphos Group will preferentially supply the raw materials to the Group before such raw materials are supplied to other customers. Further details were set out in the Company's circular dated 2 June 2006. The Guangxi Raw Materials Purchase Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 June 2006.

In accordance with the Guangxi Raw Materials Purchase Agreement, purchases from 雲南南磷集團尋甸磷電有限公司, 嵩明南西磷化工有限公司 and 雲南南磷集團陸良磷化工有限公司 in aggregate amounted to HK$58,727,000 (RMB57,339,000) for the year ended 31 December 2007 (2006: HK$92,262,000 (RMB95,159,000)).

(iv) Yunnan Leasing Agreement

On 11 May 2006, the Group and Yunphos Group entered into a agreement pursuant to which Yunphos Xundian leases to the Group the Yunnan Premises (the production factory and ancillary structures) with a gross floor area of approximately 51,793.22 square meters located at Jin Suo Xiang Industrial Small District, Xundian County, Kunming City, Yunnan Province, the PRC, and the Yunnan Machinery and Equipment for the production of yellow phosphorous for a term up to 31 December 2008. The Yunnan Premises comprises mainly two factory premises including on phosphorous production plant with a production capacity of 22,000 tonnes per annum and one power generation plant with volume of 50,000 kW per hour of electricity per annum. The power production plant generates and supplies electricity to the phosphorous plant for the manufacture of yellow phosphorous. Under the terms of the Yunnan Leasing Agreement, the annual aggregate rental for the Yunnan Premises and the Yunnan machinery and Equipment would be RMB20 million. The directors of the Company considered that rental payable under the Yunnan Leasing Agreement was determined after arm's length negotiation with reference to the rental consultation opinion on the Yunnan Premises and the Yunnan Machinery and Equipment given by an independent valuer, B.I. Appraisals Limited who confirmed that the annual rental was not higher than the fair rental at 30 April 2006 for the lease of the Yunnan Premises and the Yunnan Machinery and Equipment. The details of the Yunnan Leasing Agreement were set out in the Company's circular dated 2 June 2006. The Yunnan Leasing Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held at 19 June 2006.

32. Related party transactions (cont'd)

(a) Recurring transactions (cont'd)

(iv) Yunnan Leasing Agreement (cont'd)

In accordance with the Yunnan Leasing Agreement, rental paid and payable for Yunnan Premises and the Yunnan Machinery and Equipment to雲南南磷集團尋甸磷電有限公司amounted to HK$20,484,000 (RMB20,000,000) for the year ended 31 December 2007 (2006: HK$55,000 (RMB53,000)).

(v) Guangxi Leasing Agreement

On 11 May 2006, the Group and Yunphos Group entered into an agreement under which Yunphos Fengcheng leases to the Group the Guangxi Premises which is located at Huagang Road, Yu Zhou Cheng Industrial Zone, Gangkou District, Fangchenggang City, Guangxi Zhuang Zu Autonomous Region, the PRC with a gross floor area of approximately 6,877.06 square meters together with Guangxi Machinery and Equipment therein for a term up to 31 December 2008 ("Guangxi Leasing Agreement"). The Guangxi Premises and the Guangxi Machinery and Equipment are leased for use by the Group or members of the Group at an annual aggregate rental of RMB2.5 million. The directors of the Company considered that the rental payable under the Guangxi Leasing Agreement was determined after arm's length negotiations with reference to the rental consultation opinion on the Guangxi Premises and the Guangxi Machinery and Equipment given by an independent valuer, B.I. Appraisals Limited who confirmed at 30 April 2006 that the rental payable for Guangxi Premises was no higher than the fair rental for the lease of Guangxi Premises and the Guangxi Machinery and Equipment. Further details of the agreement were set out in the Company's circular dated 2 June 2006. The agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 June 2006.

In accordance with the Guangxi Leasing Agreement, rental paid and payable to 防城港南磷磷化工有限公司for the year ended 31 December 2007 amounted to HK$2,561,000 (RMB2,500,000) (2006: HK$1,315,000 (RMB1,275,000)).

(vi) PVC Leasing Agreement

On 9 July 2007, the Group entered into an agreement with Yunphos Group in relation to the lease of the PVC Premises and the machinery and equipment on the PVC Premises for a term commencing from 1 November 2007 to 31 December 2009 ("PVC Leasing Agreement"). Yunphos Group is owned as to approximately 99.56% by Mr. Wang An Kang ("Mr. Wang"), the sole shareholder of China Time Investment Holdings Limited which has held approximately 60% of the Company's issued capital. The PVC Premises occupy a gross floor area of approximately 103,967.23 square metre located at Jin Suo Industrial Samll District, Xundian Hui Zu Yi Zu Autonomous County, Kunming City, Yunnan Province, the PRC. These premises comprise 58 factory buildings for the production of PVC and other chemical products and power generation facilities. The Group has an exclusive right to require Yunphos Group to renew the lease term for another three years by serving a written notice one month before the expiry of the PVC Leasing Agreement and the renewal terms shall be determined by both parties with reference to the then prevailing market rental and at a term that is not less favourable than rent offered by independent third parties.

32. Related party transactions (cont'd)

(a) Recurring transactions (cont'd)

(vi) PVC Leasing Agreement (cont'd)

Under the terms of the PVC Leasing Agreement, the annual rental will be RMB75 million, subject to waiver adjustments, payable quarterly in four equal amounts; and the rental for the first quarter after the PVC Leasing Agreement becomes effective shall be calculated on a prorate basis with reference to the number of days leased during that quarter and, after deducting the installment of RMB 2 million to be paid by the Group to Yunphos Group. The rental payable under the PVC Leasing Agreement was determined after arm's length negotiation and with reference to an independent professional valuation of annual rental by B.I. Appraisals Limited of the PVC Premises and the machinery and equipment at the PVC Premises, at RMB85 million as at 30 June 2007. The directors considered that the terms under the PVC Leasing Agreement are fair and reasonable so far as the interest of the independent shareholders are concerned and are in the interests of the Company and its shareholders as a whole. The PVC Leasing Agreement was approved by the independent shareholders at the extraordinary general meeting of the Company held on 23 August 2007.

In accordance with the PVC Leasing Agreement, rental paid to 雲南南磷集團電化有限公司 and payable under the PVC Leasing Agreement amounted to HK$12,803,000 (RMB12,500,000) for the year ended 31 December 2007 (2006: NIL).

(vii) PVC Ancillary Materials Procurement Agreement

On 9 July 2007, the Group and Yunphos Group entered into an agreement under which the Group agrees to purchase ancillary materials for its PVC operations, for a term commencing from 23 August 2007 to 31 December 2009. These materials will be used for repairing and, or maintaining the production facilities of PRC products. The quantity and specification of ancillary materials to be supplied by Yunphos Group and, or its associates to the Group will be subject to the individual order placed by the Group from time to time. The unit price payable by the Group will be the same price payable by Yunphos Group to third parties in acquiring the same and no less favourable than the unit price offered by independent suppliers to the Group for the same materials of component. The purchase will be settled within 30 days upon receipt of the materials or components purchased. Further details are set out in the Company's circular dated 8 August 2007. The agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 23 August 2007.

In accordance with the purchase PVC Ancillary Materials Procurement Agreement, purchase from Yunphos Group amounted to 雲南南磷集團尋甸磷電有限公司 and 昆明東磷貿易有限公司 amounted to HK$5,000,000 (RMB4,881,000) for the year ended 31 December 2007 (2006: NIL).

32. Related party transactions (cont'd)

(a) Recurring transactions (cont'd)

(viii) Yunnan Factories Coal Supply Contract

On 9 July 2007, the Group and Yunphos Group entered into an agreement under which the Group purchased up to approximately150,000 tonnes of coal each year from Yunphos Group and, or its associates for use at the power generation plant at the Group's yellow phosphorus production facilities at Yunnan Province, the PRC for a term commencing from 23 August 2007 to 31 December 2008 ("Yunnan factories Coal Supply Contract"). The quantity and specification of coal to be supplied by Yunphos Group and, or its associates to the Group will be subject to the individual orders to be placed by the Group from time to time. The unit price of coal payable by the Group to Yunphos Group and, its associates will be no less favourable than the unit price offered to the Group by independent suppliers for the same type of coal. The amount payable by the Group to Yunphos Group and, or its associates shall be settled within 30 days upon receipt of the coal purchased. Further details are set out in the Company's circular dated 8 August 2007. The Yunnan Factories Coal Supply Contract was approved by the independent shareholders of the Company at the extraordinary general meeting held on 23 August 2007.

Under the Yunnan Factories Coal Supply Contract, purchases of coal from 雲南南磷集團電化有限公司, 雲南南磷集團尋甸磷電有限公司 and 尋甸南鋒煤業有限公司 in aggregate amounted to HK$10,087,000 (RMB9,848,000) for the year ended 31 December 2007 (2006: NIL)).

(ix) PVC Distribution Agreement

On 9 July 2007, the Group and Yunphos Group entered into an agreement under which the Group appointed Yunphos Group as its distributor to distribute sodium tripolyphosphate produced at the PVC Premises to customers outside the PRC, commencing from 23 August 2007 to 31 December 2008. The selling price will be no less favourable than the price offered by the Group to any independent customers for the same product. Yunphos Group is entitled to mark up the prices of sodium tripolyphosphate upon distributing to its own customers with reference to the administrative, marketing and finance costs incurred by it. Settlement will be made within 30 days from the date Yunphos Group received the products. Further details are set out in the Company's circular dated 8 August 2007. The agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held at 23 August 2007.

In accordance with the PVC Distribution Agreement, sales of sodium tripolyphosphate to雲南南磷集團進出口有限公司for the year ended 31 December 2007 amounted approximate to HK$11,048,000 (RMB10,787,000) for the year ended 31 December 2007 (2006: NIL).

(x) Phosphorus Ancillary Materials procurement Agreement

On 9 July 2007, the Group and Yunphos Group entered into an agreement under which the Group agrees to purchase from Yunphos Group ancillary materials for repairing and, or maintaining production facilities for phosphorus products. The agreement will be effective for a term commencing from 23 August 2007 to 31 December 2008. The quantity and specification of ancillary materials are to be supplied by Yunphos and, or its associates to the Group from time to time at the same price payable by Yunphos to third parties in acquiring the same and no less favourable than that offered to the Group by independent suppliers for the same type of materials. The purchase will be settled within 30 days from the end of each month. Further details of the agreement are set out in the Company's circular dated 8 August 2007. The Phosphorus Ancillary Materials Procurement Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 23 August 2007.

32. Related party transactions (cont'd)

(a) Recurring transactions (cont'd)

(x) Phosphorus Ancillary Materials procurement Agreement (cont'd)

In accordance with the Phosphorus Ancillary Materials Procurement Agreement, purchases of phosphorous ancillary materials from 雲南南磷集團尋甸磷電化有限公司 and 昆明東磷貿易有限公司 in aggregate amounted to HK$3,686,000 (RMB3,599,000) for the year ended 31 December 2007 (2006: NIL).

(xi) Rightlink Agency Agreement

On 5 July 2005, the Group and Rightlink Trading Limited ("Rightlink") entered into Rightlink Agency Agreement, pursuant to which the Group provides agency services to Rightlink in relation to the sales of chemical products including phosphorus and related products to Italy, Japan and Korea at an agency fee of 3% of the invoiced amount of such products sold by the Group on behalf of Rightlink with reference to the similar transactions made between Yunphos and an independent third party. The directors of the Company considered that the agency fee under this agreement was fair and reasonable.

In accordance with the Rightlink Agency Agreement, the Group received commission of HK$1,300,000 for the year ended 31 December 2007 (2006: HK$1,696,000).

(b) Non-recurring transactions

	2007 **HK$'000**	2006 HK$'000
Probest Holdings Inc		
– waiver of accrued interest by Profitown Group *(note 16)*	**(23,198)**	–
– interest expenses	**12,316**	13,867
雲南南磷集團進出口有限公司		
– purchase of goods	**555**	–

Loan Restructuring Agreement

On 20 January 2005, the Company, Probest and Profitown entered into the Loan Restructuring Agreement. Pursuant to the terms of the Loan Restructuring Agreement, Profitown issued the Promissory Note in favour of Probest, in consideration of Probest waiving portion of the outstanding loan due and owing by the Company to Probest under the Existing Promissory Note. Pursuant to the terms of the Loan Restructuring Agreement, the Company executed the Swank Guarantee to guarantee Profitown's obligations in respect of interest payable under the Promissory Note. The Swank Guarantee was released by Probest upon the disposal of the 70% equity interest in Profitown Group, as referred to notes 16 and 30 to the financial statements on 30 November 2007.

In accordance with the Loan Restructuring Agreement, loan interest paid and payable to Probest for the year ended 31 December 2007 amounted to HK$12,316,000 (2006: HK$13,867,000).

32. Related party transactions (cont'd)

(c) Amounts due to related companies

	2007 **HK$'000**	2006 HK$'000
Trade balances:		
Yunphos Group	**21,753**	11,460
Rightlink Trading Limited	**17,881**	–
	39,634	11,460

The amounts due to related companies are unsecured, interest free and repayable on demand.

(d) Amounts due to directors

	2007 **HK$'000**	2006 HK$'000
Zhou Jing	**500**	–
Wang An Kang	**769**	–
Zhao Jun	**673**	–
	1,942	–

The amounts due to directors are unsecured, interest-free and repayable on demand.

(e) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2007 **HK$'000**	2006 HK$'000
Short-term employee benefits	**3,013**	4,426
Post-employment benefits	**48**	70
Equity compensation benefits	**52**	52
	3,113	4,548

Total remuneration is included in "staff costs" (note 7)

33. Ultimate holding company

The directors regard China Time Investment Holdings Limited, a Company incorporated in the British Virgin Islands, as being the ultimate holding Company.