Yun Sky Chemical (International) Holdings Limited

(Incorporated in Hong Kong with limited liability) Stock Code: 663

Annual Report 2008

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Liu Yee Nee (Chairman) (appointed on 26 September 2008)
Louie Mei Po (appointed on 26 September 2008)
Li Wei (C.E.O.)
Zhou Jing
Wang An Kang (resigned on 21 July 2008)
Zhao Jun (resigned on 26 September 2008)

Independent Non-Executive Directors:

Ng Wai Hung (appointed on 4 September 2008)
Wu Wang Li (appointed on 4 September 2008)
Jacobsen William Keith (appointed on 26 September 2008)
Tam King Ching, Kenny (resigned on 4 September 2008)
Choi Tze Kit, Sammy (resigned on 4 September 2008)
Wu Bin (resigned on 26 September 2008)

AUDIT COMMITTEE

Ng Wai Hung (appointed on 4 September 2008)
Wu Wang Li (appointed on 4 September 2008)
Jacobsen William Keith (appointed on 26 September 2008)
Tam King Ching, Kenny (resigned on 4 September 2008)
Choi Tze Kit, Sammy (resigned on 4 September 2008)
Wu Bin (resigned on 26 September 2008)

REMUNERATION COMMITTEE

Liu Yee Nee (appointed on 26 September 2008)
Li Wei
Ng Wai Hung (appointed on 4 September 2008)
Wu Wang Li (appointed on 4 September 2008)
Jacobsen William Keith (appointed on 26 September 2008)
Wu Bin (resigned on 26 September 2008)
Tam King Ching, Kenny (resigned on 4 September 2008)
Choi Tze Kit, Sammy (resigned on 4 September 2008)
Zhao Jun (resigned on 26 September 2008)

AUTHORISED REPRESENTATIVES

Liu Yee Nee
Louie Mei Po

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Law Pik Kam Peggy

AUDITOR

CCIF CPA Limited
Certified Public Accountants
20th Floor, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

LEGAL ADVISERS

Sidley Austin

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1211, 12/F., Tower 1
New World Tower
18 Queen's 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

CHAIRMAN'S STATEMENT

2008 was a difficult year for the Group. Upon achieving excellent result in year 2007, the Company had been very positive about 2008. However, the Group has encountered several challenges that had affected both its production and profitability, including substantial increase in raw material prices and energy cost, shortage in supplies of raw material and two major natural disasters in the PRC taken place in January and May 2008.

The increase in sales in year 2007 was mainly due to the introduction of PVC and related products. However the PVC market was totally reversed in year 2008. The Group faced unfavourable market conditions that limited its ability to increase the selling price in cope with the increase in production costs. In September 2008, the Group had decided to cease its production of PVC and PVC related products.

Due to the rapid contraction in global economy, it is expected that the Group's phosphorus manufacturing business will not be turnaround in near future. Following the expiry of various agreements relating to the prosphorus business in 31 December 2008, the Group has reviewed the prospect and opportunity of the business of manufacturing of phosphorus products and considered to re-deploy its resources to other investment opportunities that may offer better return. Notwithstanding the cessation of the manufacturing of phosphorus and PVC products, the Group still engages in the trading of phosphorus products, and the Group will closely monitor the prospects and development of the phosphorus products market to assess whether the Group will commit to any manufacturing business through, among others, co-operation with or leasing of premises from other manufacturers.

Having regard to the declining performance of the chemical business, the Group has diversified into a new business and started to engage in trading of optical products in the second half of year 2008. The Group expects the trading of optical business will be able to provide a stable income stream.

The Board will continue to review the business activities and assets of the Group for the purpose of formulating new business plans and strategies for the future business development of the Group.

On behalf of the Board

Liu Yee Nee
Chairman

Hong Kong, 27 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND BUSINESS REVIEW

Continuing operations

The Group recorded a total turnover of approximately HK$627.1 million (2007: HK$373.0 million) for its continuing operational business representing an increase of approximately 68.1% compared with last year. The increase was mainly in the first half of year 2008. However, the financial tsunami had caused the decrease in demand for phosphorus products in second half of the year that affected the profitability of the phosphorus business.

Overall gross profit margin decreased from approximately HK$109.0 million last year to approximately HK$28.8 million representing a decrease of approximately 73.6%. Such decrease was primarily due to the significantly increase in the raw materials costs as compared with last year.

Selling and distribution costs, and administrative expenses were approximately HK$17.8 million and HK$19.5 million respectively during the year compared with approximately HK$12.0 million and HK$14.2 million respectively for last year. An amount of approximately HK$13.3 million was also written down for the slow moving inventories.

Loss from the continuing operations was approximately HK$20.5 million during the year compared with a net profit of approximately HK$84.7 million last year.

Discontinued operations

On 11 September 2008, the Group entered into a leasing termination agreement pursuant to which the Group terminated the PVC leasing agreement with effect from 31 October 2008. Further details were set out in the Company's circular dated 8 October 2008.

The PVC business has recorded a total turnover of approximately HK$191.7 million (2007: HK$94.0 million). Selling and distribution costs and administrative expenses were approximately HK$11.1 million and HK$8.5 million respectively for the year. Impairment on trade receivables amounted to HK$36.4 million was also provided. Finance costs amounted to approximately HK$448,000 representing the interest on discounted bills.

The PVC business recorded an operating loss of approximately HK$57.6 million (2007: profit HK$19.6 million).

FUTURE OUTLOOK

There is the massive increase in stock for each kind of phosphorus chemical products in China and it is estimated that there are over 250,000 tonnages of yellow phosphorus in China being piling up. In view of the fact that the extremely weak market demand currently, the market will probably take more than 6 months to consume such a large quantity of stock. During such period, due to the pressure of funding onto the market players, the price is expected to go down irrationally, thus resulting in increasing operational loss and eventually the decision to suspense production. All of the above will probably severely impair the entire phosphorus chemical industry future development.

Coupling of the upsurge of market prices in early 2008, the financial crisis in late 2008 has created even worse impact to the whole phosphorus chemical industry. In the weakening economic situation, the demand for phosphorus chemical products will remain low and thus it is expected that the overall market situation will not improve in year 2009.

Although the China government has decided to reduce the special customs duty for yellow phosphorus to 75% starting from December 2008, the effect of reducing the export cost will somehow offset by the persistent decrease in market price in international phosphorus ore and coke, and thus our phosphorus chemical business is still in the obvious inferiority in the international market.

Following the global slide in the market price of phosphorus ore and sulphur ore, the production cost of phosphoric acid using the thermal methods by the overseas competitors can be further reduced. However, since the Company is using wet process production methodology, the Company cannot benefit from the cost reduction and thus making the Company less competitive as compared with our overseas competitors using the thermal methods. It will remain a challenging year of our export business in phosphoric chemical section.

Facing such unfavourable market and economic situation, the Company will be very cautious and continue to monitor the overall market situation closely. Apart from starting of the trading of optical products in late 2008, the Company will continue to initiate and commence new business activities and to identify suitable projects and investment opportunities for possible diversifications.

LIQUIDITY AND FINANCIAL REVIEW

The Group mainly financed its day to day operations by internally generated cash flow. As at 31 December 2008, the current ratio of the Group, measured as total current assets to total current liabilities, was 1.36:1 compared with 1.89:1 for the same time last year.

During the year, the Group recorded a net cash generated from its operating activities of approximately HK$49.1 million.

The Group conducted 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 2008.

GEARING RATIO

The gearing ratio of the Group, measured as total debts to total assets, was 72.76% as at 31 December 2008, as compared to 52.87% as at 31 December 2007.

CORPORATE MOVES

On 6 May 2008, Sinogreat Limited ("Sinogreat") entered into the sale and purchase agreement with China Time Investment Holdings Limited to acquire 1,675,215,498 shares for a consideration of HK$70,000,000. Therefore, Sinogreat was required under the Takeovers Code to make a mandatory general cash offer to acquire all the issued shares not already owned or agreed to be acquired by Sinogreat or parties acting in concert with it. The offer closed on 24 June 2008.

On 11 September 2008, a subsidiary of the Company entered into the PVC Leasing Termination Agreement with a connected party to terminate the PVC Leasing Agreement (details of the PVC Leasing Agreement were set out in the circular of the Company dated 8 August 2007), which constituted as the major and connected transaction. Details were set out in the circular of the Company dated 8 October 2008. Upon the PVC Leasing Termination Agreement becoming effective on 31 October 2008, the Group ceased its production of PVC and PVC related products.

Various agreements relating to the business of manufacturing of phosphorus products were expired on 31 December 2008.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

During the year, the management has decided to terminate the PVC business.

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 2008, the Group had no capital commitment.

As at 31 December 2008, there was no charge on the Group's assets and no material contingent liability.

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2008, the Group had 628 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 2008, total share options outstanding amounted to 12,320,000 shares held by an employee. No share option was exercised during the year.

On behalf of the Board

Li Wei
Chief Executive Officer

Hong Kong, 27 April 2009

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Liu Yee Nee, aged 43, is responsible for the overall management, finance and treasury of the Group. Ms. Liu holds a master's degree of Business Administration from the Hong Kong University of Science & Technology and is a member of the Chartered Institute of Management Accountants, The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants, The Institute of Chartered Secretaries & Administrators and The Hong Kong Institute of Company Secretaries and has over 20 years experience in the field of accounting and management. Ms. Liu is an executive director of Tomorrow International Holdings Limited (Stock Code : 00760). Ms. Liu was appointed as the Chairman and executive director of the Company on 26 September 2008.

Ms. Louie Mei Po, aged 41, is responsible for business investment and development of the Group. Ms. Louie holds a master's degree in Business Administration and a bachelor's degree in Social Science from the Chinese University of Hong Kong. She has over 12 years' experience in business investment and development and loan financing. Ms. Louie was an executive director of the Company from 4 March 2002 to 5 July 2005. Ms. Louie is an executive director of Tomorrow International Holdings Limited (Stock Code : 00760). Ms. Louie was appointed as executive director of the Company on 26 September 2008.

Mr. Li Wei, aged 42, 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 as executive director of the Company on 5 July 2005. Mr. Li is a PRC citizen.

Ms. Zhou Jing, aged 34, 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 as executive director of the Company on 5 July 2005. Ms. Zhou is a PRC citizen.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wai Hung, aged 45, is a practicing solicitor and a partner in Iu, Lai Li, a Hong Kong firm of solicitors and notaries. He has extensive experience in the area of securities laws, corporate law and commercial law in Hong Kong and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring and merger and acquisitions and takeovers of listed companies. He frequently advises multinational and Hong Kong corporations on private equity investments, joint venture as well as regulatory compliance. Currently, he is an independent non-executive director of KPT Holdings Limited (Stock Code : 00645), Fortune Sun (China) Holdings Limited (Stock Code : 00352), Tomorrow International Holdings Limited (Stock Code : 00760) and Hycomm Wireless Limited (Stock Code : 00499). He was appointed as an independent non-executive director of the Company on 4 September 2008.

Mr. Wu Wang Li, aged 34, obtained his bachelor of commerce degree from Deakin University and has over 9 years of experience in auditing and accounting profession and consulting services. He is a director of Skywise Consultants Limited, which is principally engaged in provision of business consulting services such as financial and accounting services and is admitted to the status of Certified Practicing Accountant of CPA Australia. During the period from 27 September 2004 to 5 July 2005, Mr. Wu was the independent non-executive director of the Company. Currently, he is an independent non-executive director of Tomorrow International Holdings Limited (Stock Code : 00760) and Hycomm Wireless Limited (Stock Code : 00499). He was appointed as an independent non-executive director of the Company on 4 September 2008.

Mr. Jacobsen William Keith, aged 42, has more than 15 years experience in corporate finance and business development. He holds a Bachelor of Laws from the University of Hong Kong and a Master of Business Administration from the University of British Columbia. He is an independent non-executive director of Hycomm Wireless Limited (Stock Code : 00499). He was appointed as an independent non-executive director of the Company on 26 September 2008.

SENIOR MANAGEMENT

Ms. Law Pik Kam Peggy, aged 49, is a management accountant of various companies and has over 15 years experience in accounting, finance and treasury control. Ms Law is an associate of The Hong Kong Institute of Certified Public Accountants. She was appointed as the company secretary and qualified accountant of the Company on 1 November 2008.

Mr. Liu Hua, aged 39, 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 People's Congress in the Kumming City in Yunnan.

Mr. Chen Xingwen, aged 42, 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 1991 by distance learning.

Mr. Chai Youlin, aged 58, 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 45, 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 41, is the chief accountant the Group's yellow phosphorus and PVC business. Mr. Tao 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 2008.

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 phosphorus products for industrial use;

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

(iii) the trading of optical products.

During the year, the Group has terminated the activities on the manufacture and sale of PVC and PVC related products for industrial use.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2008 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 22 to 74. The directors do not recommend the payment of any dividend in respect of the year under review.

SUMMARY FINANCIAL INFORMATION

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

	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
ASSETS AND LIABILITIES					
Property, plant and equipment	**2,441**	258	54,825	80,408	85,635
Construction in progress	**–**	464	–	–	–
Land use rights	**–**	–	–	7,869	8,362
Interest in associates	**–**	–	50,100	35,825	37,220
Current assets	**188,622**	259,476	123,100	101,671	109,295
TOTAL ASSETS	**191,063**	260,198	228,025	225,773	240,512
Current liabilities	**139,008**	137,576	183,115	48,935	141,036
Amount due to a shareholder	**–**	–	53,579	49,703	46,594
Non-current portion of promissory note payable	**–**	–	–	112,285	75,000
Provision for long service payments	**–**	–	115	176	379
TOTAL LIABILITIES	**139,008**	137,576	236,809	211,099	263,009
NET ASSETS / (LIABILITIES)	**52,055**	122,622	(8,784)	14,674	(22,497)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements. There was no property, plant and equipment owned by the Company during the year ended 31 December 2008.

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 28 and 31 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 equity and in the note 29 to the financial statements respectively.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company had no retained profits available for cash distribution and/or distribution in specie. In addition, the Company's 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 operations accounted for approximately 56.30% of the total sales for the year and sales to the largest customer included therein amounted to approximately 30.38% of the total sales. Purchases from the Group's five largest suppliers for its continuing operations accounted for approximately 71.91% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 47.59% of the total purchases.

During the year under review, except for Mr. Wang An Kang ("Mr. Wang"), a director and shareholder of the Company, had interest in one of the largest five customers and one of the largest five suppliers, as far as the directors were 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 had interest in, were carried out on normal commercial terms.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Liu Yee Nee (Chairman) (appointed on 26 September 2008)
Louie Mei Po (appointed on 26 September 2008)
Li Wei (C.E.O.)
Zhou Jing
Wang An Kang (resigned on 21 July 2008)
Zhao Jun (resigned on 26 September 2008)

Independent non-executive directors:

Ng Wai Hung (appointed on 4 September 2008)
Wu Wang Li (appointed on 4 September 2008)
Jacobsen William Keith (appointed on 26 September 2008)
Tam King Ching, Kenny (resigned on 4 September 2008)
Choi Tze Kit, Sammy (resigned on 4 September 2008)
Wu Bin (resigned on 26 September 2008)

In accordance with the Company's articles of association, (i) directors appointed shall hold office until the first annual general meeting and eligible for re-election and (ii) at each annual general meeting one-third of directors shall retire from office by rotation. Each of Ms. Liu Yee Nee, Ms. Louie Mei Po, Mr. Li Wei, Ms. Zhou Jing, Mr. Ng Wai Hung, Mr. Wu Wang Li and Mr. Jacobsen William Keith will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 6 to 7 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Li Wei and Ms. Zhou Jing, being the executive directors, had entered into a service contract with the Company for a term of three years commencing from 5 July 2005, terminable by not less than three months' notice by either party. These two service contracts were expired on 4 July 2008 and were not renewed.

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 had 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 material purchase agreement enabling the Group to purchase raw material 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 distributors 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 material procurement agreements enabling the Group to purchase ancillary material from companies controlled by Mr. Wang for repairing and, or maintaining production facilities for its operations.

During the year, the transactions under these contracts were set out in note 33(b) to the financial statements.

Further details of these contracts were disclosed in the Company's circulars dated 2 June 2006 and 8 August 2007.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

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 were disclosed in note 31 to the financial statements. As at 31 December 2008, 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 shares held	Approximate Percentage of the Company's issued share capital
Chan Yuen Ming ("Mr. Chan")	1,647,746,948 (note 1)	51.33
Sinogreat Limited	1,629,464,158 (note 1)	50.76
Gouw Hiap Kian ("Mr. Gouw")	327,600,636 (note 2)	10.20
Ng Choi Yue Mary	327,600,636 (note 2)	10.20
HSBC International Trustee Limited	327,600,636 (note 2)	10.20
Chung Chiu (PTC) Limited	327,600,636 (note 2)	10.20
Goldig Investment Group Limited	327,600,636 (note 2)	10.20
China Time Investment Holdings Limited	208,324,182 (note 3)	6.49
Wang An Kang ("Mr. Wang")	208,324,182 (note 3)	6.49
Mu Yucun	208,324,182 (note 3)	6.49
Choi Koon Shum, Jonathan ("Mr. Choi")	188,702,795 (note 4)	5.88
Kwan Wing Kum, Janice ("Ms. Kwan")	188,702,795 (note 4)	5.88
Lam Wong Yuk Sin, Mary ("Mrs. Lam")	188,702,795 (note 4)	5.88
Kingsway International Holdings Limited ("Kingsway International")	188,702,795 (note 4)	5.88
Innovation Assets Limited ("Innovation")	188,702,795 (note 4)	5.88
World Developments Limited ("World Developments")	188,702,795 (note 4)	5.88
SW Kingsway Capital Holdings Limited ("SW Kingsway")	188,702,795 (note 4)	5.88
Festival Developments Limited ("Festival Developments")	188,702,795 (note 4)	5.88
Kingsway Lion Spur Technology Limited	188,702,795 (note 4)	5.88

Notes:

1. Mr. Chan is the sole shareholder of Sinogreat Limited which owns 1,629,464,158 shares. Probest Holdings Inc., a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Tomorrow International Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange and is controlled by Mr. Chan, owns 18,282,790 shares.

2. Goldig Investment Group Limited is a wholly owned subsidiary of Chung Chiu (PTC) Limited, which in turn is wholly owned by a discretionary trust. The founder of the discretionary trust is Mr. Gouw, and the trustee of the discretionary trust is HSBC International Trustee Limited. Ng Choi Yue Mary, the spouse of Mr. Gouw, is deemed to be interested in Mr. Gouw's interest in the shares.

3. Mr. Wang is the sole shareholder of China Time Investment Holdings Limited, which owns 208,324,182 shares. Mu Yucun is Mr. Wang's spouse and she is deemed to be interested in Mr. Wang's interest in the shares.

4. Mr. Choi and his spouse Ms. Kwan are deemed to be interested in 188,702,795 shares in the Company by virtue of their 46% shareholding in Kingsway International. Mrs. Lam is deemed to be interested in 188,702,795 shares in the Company by virtue of her 40% shareholding in Kingsway International. Kingsway International, in turn, holds 100% shareholding in Innovation. Innovation, in turn, holds 100% shareholding in World Developments. World Developments, in turn, holds 74% shareholding in SW Kingsway. SW Kingsway, in turn, holds 100% direct shareholdings in Festival Developments. Festival Developments in turn holds 100% direct shareholding in Kingsway Lion Spur Technology Limited, which holds 188,702,795 shares of the Company.

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.

MAJOR AND CONNECTED TRANSACTION

On 17 September 2008, the Board announced that on 11 September 2008, a subsidiary of the Company entered into the PVC Leasing Termination Agreement with a connected person to terminate the PVC Leasing Agreement (details of the PVC Leasing Agreement were set out in the circular of the Company dated 8 August 2007), which constituted as the major and connected transaction. Details were set out in the circular of the Company dated 8 October 2008. Upon the PVC Leasing Termination Agreement becoming effective on 30 October 2008, the Group ceased its production of PVC and PVC related products.

CONTINUING CONNECTED TRANSACTIONS

During the year, the following continuing connected transactions, as set out in note 33(b) to the financial statements, have been carried out 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 19 June 2006 by which an indirect wholly owned subsidiary engaged a connected person to act as its sales agent for its products. During the year, no commission expenses were recorded.

b. A leasing agreement which the same subsidiary of the Company leased certain premises in Guangxi from a connected person to carry on its manufacturing business. Such premises included production factories together with their ancillary structures, and ancillary equipment and machinery in these locations. The lease was commenced on 27 June 2006 with a rental of RMB 2.5 million for 2008.

c. 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 person to carry on its phosphorus manufacturing business. Such premises included production factories together with their ancillary structures, and ancillary equipment and machinery in these locations. The lease was commenced on 31 December 2006 with an annual rental of RMB20.0 million for 2008.

d. A distribution agreement by which the same subsidiary engaged a connected person and/or its associate(s) to act as its distributor for its phosphorus products. During the year, total sales of RMB179,949,000 (HK$198,478,000) was recorded.

CONTINUING CONNECTED TRANSACTIONS (CONT'D)

e. A raw material purchase agreement enabling the same subsidiary to purchase yellow phosphorus from a connected person and/or its associate(s) for its production. During the year, total purchases of RMB239,997,000 (HK$264,708,000) was recorded.

f. 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 RMB9,144,000 (HK$10,086,000) was recorded.

g. 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 RMB3,591,000 (HK$3,961,000) was recorded.

h. A PVC distribution agreement where the same subsidiary of the Company or its fellow subsidiary within the Group engaged a connected person and/or its associate(s) as a distributor for the sale of sodium tripolyphosphate, a PVC related product. During the year, total sales of RMB63,998,000 (HK$70,588,000) was recorded.

i. A PVC leasing agreement where the same subsidiary of the Company or its fellow subsidiary within the Group leased 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 was commenced on November 2007 with a rental of RMB25.0 million for 2008.

j. 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 RMB10,080,000 (HK$11,118,000) was recorded.

The agreements of item (a) to item (g) were expired on 31 December 2008. The agreement of item (i) was terminated on 30 October 2008.

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

(i) in the ordinary course and normal 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 March 2009, a wholly owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the "Agreement") with an independent third party, pursuant to which the Group agreed to dispose of 100% shareholding of Fangcheng Huahai Chemicals Co., Ltd., a wholly owned subsidiary of the Group, for a consideration of RMB26,000,000 and subject to adjustment based on audited figure as at 31 December 2008. The above was detailed in the Company's circular dated 25 March 2009.

On 8 January 2009, the Company entered into a subscription agreement with an independent third party (the "subscriber"), pursuant to which the Company has agreed to issue and allot and the subscriber has agreed to subscribe for a total of 84,880,636 ordinary shares of the Company of HK$0.01 each at the subscription price of HK$0.09425 each. The share subscription was completed on 6 February 2009. The net proceeds from the share subscriptions, after deducting of expenses, of approximately HK$8,000,000 were applied as general working capital.

CODE ON CORPORATE GOVERNANCE PRACTICES

Save as the following deviation, 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 2008.

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 not appointed on specific terms, however, all of them are subject to retirement by rotation at the annual general meeting of the Company.

According to the Memorandum and Articles of Association of the Company, one third of the directors shall retire from office by rotation. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less than those in the Code.

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 Annual 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 2008 and the final results for the year ended 31 December 2008.

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 retires and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Liu Yee Nee
Chairman

Hong Kong, 27 April 2009

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, save as the deviation of Code. A.4.1 that the non-executive directors are not appointed for a specific term, 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 2008.

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, with balance of skills and experience, 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 2008 is as follows:

Directors	**Attendance**
Executive Directors	
Liu Yee Nee	2
Louie Mei Po	2
Wang An Kang	3
Zhao Jun	3
Li Wei	5
Zhou Jing	5
Independent Non-executive Director	
Jacobsen William Keith	2
Ng Wai Hung	2
Wu Wang Li	2
Wu Bin	3
Tam King Ching, Kenny	3
Choi Tze Kit, Sammy	3

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

With reference to the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants, the Company has established an Audit Committee with written terms of reference which 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. Jacobsen William Keith.

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 2008 are as follows:

Directors	Attendance
Jacobsen William Keith	1
Ng Wai Hung	1
Wu Wang Li	1
Wu Bin	1
Choi Tze Kit, Sammy	1
Tam King Ching, Kenny	1

ROLE AND RESPONSIBILITIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In compliance with provision A.2.1 of the Code, the roles of chairman, currently held by Ms. Liu Yee Nee, and chief executive officer, currently held by Mr. Li Wei, are separate and are not performed by the same individual. The responsibilities between the chairman and chief executive officer are clearly established.

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 not appointed on specific terms, however, all of them are subject to retirement by rotation at the annual general meeting of the Company.

According to the Memorandum and Articles of Association of the Company, one third of the directors shall retire from office by rotation. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less than those in the Code.

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 were 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.

REMUNERATION COMMITTEE (CONT'D)

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

Director	Attendance
Zhao Jun	1
Li Wei	2
Wu Bin	1
Tam King Ching, Kenny	1
Choi Tze Kit, Sammy	1
Liu Yee Nee	1
Ng Wai Hung	1
Wu Wang Li	1
Jacobsen William Keith	1

Details of remunerations of the directors from the Group for the year are as disclosed in note 9 to the financial statements.

NOMINATION OF DIRECTORS

According to the Company's Articles of Association, the Board of Directors has the power 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, Ms. Liu Yee Nee and Ms. Louie Mei Po were appointed as executive director of the Company, Mr. Ng Wai Hung, Mr. Wu Wang Li and Mr. Jacobsen William Keith were appointed as independent non-executive director of the Company. All directors should be subject to re-election at regular intervals in accordance with the Articles of Association of the Company.

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 2008, 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 with reasonable accuracy 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 and non-audit fees for the Group amounted to HK$575,000 and HK$235,000 respectively. The statement of the auditor of the Company regarding their reporting responsibilities is set out in the Independent Auditor's Report on page 20 to 21.

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 behavior established for safeguarding the interests of the shareholders of the Company.

COMMUNICATION WITH SHAREHOLDER

The Company believes in regular and timely communication with shareholders as part of its efforts to help shareholders understand its business better and the way the Company operates. To promote effective communication with the public at large, the Company maintains a website on which comprehensive information about the Company's major businesses, financial information and announcements, annual and interim reports and shareholders circulars are being made available.

All shareholders of the Company are given at least 21 days notice of the date and venue of the annual general meeting. According to the Listing Rules, the Board will conduct voting at the forthcoming annual general meeting by vote and will amend the Memorandum and Articles of Association of the Company accordingly.

The Board is endeavour to maintain an on-going dialogue with shareholders. The chairman of the Board and member of the Audit Committee should attend the annual general meeting to answer questions.

INDEPENDENT AUDITOR'S REPORT

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
(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 22 to 74 which comprise the consolidated and company balance sheets as at 31 December 2008, 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 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 2008 and of the Group's loss 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, 27 April 2009

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 HK$'000	2007 HK$'000 (restated)
Continuing operations			
Turnover	5	**627,056**	373,047
Cost of sales		**(598,245)**	(264,084)
Gross profit		**28,811**	108,963
Other income	6	**1,409**	1,888
Selling and distribution costs		**(17,835)**	(11,968)
Administrative expenses		**(19,493)**	(14,233)
Write-down of inventories		**(13,349)**	–
(Loss)/profit from operations		**(20,457)**	84,650
Finance costs	7	**–**	–
(Loss)/profit before income tax	8	**(20,457)**	84,650
Income tax	11	**–**	–
(Loss)/profit for the year from continuing operations		**(20,457)**	84,650
Discontinued operations			
(Loss)/profit for the year from discontinued operations	16	**(57,574)**	32,337
(Loss)/profit for the year		**(78,031)**	116,987
Attributable to:			
Equity holders of the Company	12		
– Continuing operations		**(20,457)**	84,650
– Discontinued operations		**(57,574)**	31,372
		(78,031)	116,022
Minority interests			
– Continuing operations		**–**	–
– Discontinued operations		**–**	965
		–	965
(Loss)/profit for the year		**(78,031)**	116,987
(Loss)/earnings per share (HK cents)	14		
Basic			
Continuing operations		**(0.66)**	2.71
Discontinued operations		**(1.84)**	1.00
Continuing and discontinued operations		**(2.50)**	3.71
Diluted			
Continuing operations		**N/A**	2.71
Discontinued operations		**N/A**	1.00
Continuing and discontinued operations		**N/A**	3.71

The notes on pages 27 to 74 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	2,441	258
Construction in progress	18	–	464
		2,441	722
Current assets			
Inventories	20	26,387	57,474
Trade receivables	21	15,248	47,533
Amounts due from related companies	33(c)	30,151	–
Tax recoverable		994	–
Prepayments, deposits and other receivables	22	31,407	124,127
Cash and cash equivalents	23	84,435	30,342
		188,622	259,476
Total assets		191,063	260,198
EQUITY			
Share capital	28	31,249	31,249
Reserves	29	20,806	91,373
Total equity		52,055	122,622
LIABILITIES			
Current liabilities			
Amounts due to related companies	33(d)	94,546	39,634
Amounts due to directors	33(e)	–	1,942
Trade payables	25	31,542	61,846
Accruals and other payables	26	12,920	34,154
		139,008	137,576
Total liabilities		139,008	137,576
Total equity and liabilities		191,063	260,198
Net current assets		49,614	121,900
Total assets less current liabilities		52,055	122,622

Approved and authorised for issue by the board of directors on 27 April 2009

On behalf of the board

Liu Yee Nee
Director

Li Wei
Director

The notes on pages 27 to 74 form part of these financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	19	**4**	4
Current assets			
Prepayments, deposits and other receivables	22	**407**	1,069
Amount due from a subsidiary	24	**70,003**	–
Cash and cash equivalents	23	**27**	16
		70,437	1,085
Total assets		**70,441**	1,089
EQUITY			
Share capital	28	**31,249**	31,249
Reserves	29	**22,634**	(45,951)
Total equity		**53,883**	(14,702)
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	24	**16,332**	13,087
Accruals and other payables	26	**226**	2,704
Total liabilities		**16,558**	15,791
Total equity and liabilities		**70,441**	1,089
Net current assets/(liabilities)		**53,879**	(14,706)
Total assets less current liabilities		**53,883**	(14,702)

Approved and authorised for issue by the board of directors on 27 April 2009

On behalf of the board

Liu Yee Nee
Director

Li Wei
Director

The notes on pages 27 to 74 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium account HK$'000	Statutory surplus reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Special reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007	31,249	723,462	–	8,551	8	341,800	52	(1,097,040)	8,082	(16,866)	(8,784)
Exchange difference on translation of financial statements of oversea subsidiaries	–	–	–	6,346	–	–	–	–	6,346	–	6,346
Profit for the year	–	–	–	–	–	–	–	116,022	116,022	965	116,987
Total recognised income and expense for the year	–	–	–	6,346	–	–	–	116,022	122,368	965	123,333
Equity-settled share-based payment expenses – Amount recognised during the year	–	–	–	–	–	–	52	–	52	–	52
Disposal of subsidiaries	–	–	–	(7,872)	(8)	–	–	–	(7,880)	15,901	8,021
Transfer to retained earnings upon disposal of subsidiaries	–	–	–	–	–	(341,800)	–	341,800	–	–	–
	–	–	–	(7,872)	(8)	(341,800)	52	341,800	(7,828)	15,901	8,073
At 31 December 2007	31,249	723,462	–	7,025	–	–	104	(639,218)	122,622	–	122,622
At 1 January 2008	31,249	723,462	–	7,025	–	–	104	(639,218)	122,622	–	122,622
Exchange difference on translation of financial statements of oversea subsidiaries	–	–	–	6,692	–	–	–	–	6,692	–	6,692
Loss for the year	–	–	–	–	–	–	–	(78,031)	(78,031)	–	(78,031)
Total recognised income and expense for the year	–	–	–	6,692	–	–	–	(78,031)	(71,339)	–	(71,339)
Equity-settled share-based payment expenses – Amount recognised during the year	–	–	–	–	–	–	772	–	772	–	772
– Forfeiture of share options	–	–	–	–	–	–	(112)	112	–	–	–
Transfer	–	–	7,904	–	–	–	–	(7,904)	–	–	–
	–	–	7,904	–	–	–	660	(7,792)	772	–	772
At 31 December 2008	31,249	723,462	7,904	13,717	–	–	764	(725,041)	52,055	–	52,055

The notes on pages 27 to 74 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 HK$'000	2007 HK$'000
Operating activities		
(Loss)/profit before income tax		
– Continuing operations	**(20,457)**	84,650
– Discontinued operations (note 16(c))	**(57,574)**	32,400
	(78,031)	117,050
Adjustments for:		
Equity-settled payment expenses	**772**	52
Loss on disposal of subsidiaries (note 16(a))	**–**	8,021
Interest payable waived by a minority shareholder	**–**	(23,198)
Finance costs	**448**	12,316
Share of profits less losses of associates	**–**	(6,900)
Bank interest income	**(356)**	(1,528)
Loss on disposal of property, plant and equipment	**7**	5
Depreciation	**297**	8,914
Impairment of trade receivables	**36,368**	–
Write-down of inventories	**13,349**	1,151
Operating (loss)/profit before working capital changes	**(27,146)**	115,883
Increase in trade receivables	**(4,083)**	(54,852)
Decrease in bills receivable	**–**	78
Decrease/(increase) in prepayments, deposits and other receivables	**92,720**	(112,961)
Decrease/(increase) in inventories	**17,738**	(32,040)
Decrease in net amounts due from associates	**–**	1,864
Increase in amounts due from related companies	**(30,151)**	–
(Decrease)/increase in trade payables	**(30,304)**	51,992
(Decrease)/increase in amounts due to directors	**(1,942)**	1,942
(Decrease)/increase in accruals and other payables	**(21,234)**	29,298
Increase in amounts due to related companies	**54,912**	33,569
Cash generated from operations	**50,510**	34,773
Discounting charges paid	**(448)**	–
Income tax paid	**(994)**	(63)
Net cash generated from operating activities	**49,068**	34,710
Investing activities		
Interest received	**356**	1,528
Dividends received from associates	**–**	4,000
Disposal of subsidiaries (note 30)	**–**	(52,007)
Purchase of property, plant and equipment	**(1,994)**	(1,630)
Net cash used in investing activities	**(1,638)**	(48,109)
Net increase/(decrease) in cash and cash equivalents	**47,430**	(13,399)
Effect of foreign exchange rate changes	**6,663**	6,346
	54,093	(7,053)
Cash and cash equivalents at 1 January	**30,342**	37,395
Cash and cash equivalents at 31 December	**84,435**	30,342
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**84,435**	30,342

The notes on pages 27 to 74 form 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 address of its registered office and principal place of business is Room 1211, 12/F, Tower 1, New World Tower, 18 Queen's Road Central, Hong Kong. The Company and its subsidiaries (collectively the "Group") are principally engaged in the manufacture and sale of phosphorus products and trading of optical products. The Group was also engaged in manufacture and sale of PVC products and manufacture of optical products which was discontinued during the current and last years respectively. Further details refer to note 16.

During the year ended 31 December 2007, the Group entered into certain leasing agreements with Yunnan Phosphorus Group Co., Ltd and its subsidiaries ("Yunphos Group") under which the Group leased 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. Most of the above leasing and purchase agreements with Yunphos Group were terminated or expired during the year. Further details of the above transactions refer to note 33(b).

The financial statements are presented in Hong Kong Dollars, unless otherwise stated, which is same as the functional currency of the Company.

2. 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 the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rule"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries.

The financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has where applicable applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment is required.

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2008.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 1, HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidiaton[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 2	Members' Share in Co-operative Entities and Similar Instruments[2]
HK(IFRIC) – Int 9 (Amendment)	Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives[6]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for annual periods ending on or after 30 June 2009
7 Effective for annual periods ending on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The Company's directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) 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 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 holders 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 holders 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, investments in subsidiaries are stated at cost less impairment losses, unless the investments are classified as held for sale (or included in a disposal group that is classified as held for sales).

(e) Property, plant and equipment

Buildings are carried at fair values less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of assets. All other 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.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

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

Buildings	Over the lease term
Plant and machinery	10-15 years
Furniture, fixtures and equipment	5-10 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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Construction in progress

Construction in progress represents plant and machinery under construction, and is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(g) Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(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.

Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– 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 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Impairment of assets (cont'd)

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

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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(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.

If any such indication exists, the asset's recoverable amount is estimated.

– 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).

– Recognition of impairment losses

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset, 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) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Impairment of assets (cont'd)

(iii) Interim financial reporting and impairment

Under the Listing Rule, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(i) Inventories

Inventories are carried at the lower of cost and net realisable 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 realisable 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 realisable value and all losses of inventories are recognised as an expense in the period 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.

(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.

(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, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

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. 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 Group or the Company 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 the 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.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong Dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong Dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Employees benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) 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.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

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).

(iv) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Revenue recognition

Provided it is probable that the economic 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) Sale 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) Commission service income

Commission service income is recognised when the services are rendered.

(iii) Interest income

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

(iv) Grant income

Grant income is recognised upon the granting of subsidy by the relevant authorities when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to them.

(s) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(t) 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 exercise 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 individual;

(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 influenced by, that individual in their dealings with the entity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(u) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operation, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise corporate assets, tax balances, corporate and financing expenses.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables and payables, bank deposits, amounts due to directors, amounts due from and to related companies. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and other price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(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. The trade receivables are due within 30 to 180 days from the date of billing. Trade debtors with balances that are more than 180 days from the date of billing are requested to settle all outstanding balances before any further credit is granted. The Group does not obtain collateral from customers.

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.

At the balance sheet date, the Group has a certain concentration of credit risk of 82% (2007: 36%) and 99% (2007: 60%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2008, 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 institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(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 manage 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.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(b) Liquidity risk (cont'd)

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

	2008			2007		
	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
Trade and other payables and accruals	**44,462**	**44,462**	**44,462**	96,000	96,000	96,000
Amounts due to related companies	**94,546**	**94,546**	**94,546**	39,634	39,634	39,634
Amounts due to directors	**–**	**–**	**–**	1,942	1,942	1,942
	139,008	**139,008**	**139,008**	137,576	137,576	137,576

Company

	2008			2007		
	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
Other payables and accruals	**226**	**226**	**226**	2,704	2,704	2,704
Amount due to a subsidiary	**16,332**	**16,332**	**16,332**	13,087	13,087	13,087
	16,558	**16,558**	**16,558**	15,791	15,791	15,791

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(c) Interest rate risk

(i) Interest rate profile

The Group's interest rate risk arises primarily from cash at banks. 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

	2008		2007	
	Effective interest rate	**HK$'000**	Effective interest rate	HK$'000
Cash and cash equivalents	**0.71%**	**84,435**	2.6%	30,342

Company

	2008		2007	
	Effective interest rate	**HK$'000**	Effective interest rate	HK$'000
Cash and cash equivalents	**0.1%**	**27**	2.6%	16

(ii) Sensitivity analysis

At 31 December 2008, 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$844,000 (2007: HK$303,000). Other components of equity would not be affected by the changes in interest rates for both years.

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 2007.

(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 OBJECTIVES AND POLICIES (CONT'D)

(e) Foreign currency risk

The Group is exposed to currency risk primarily from its trade receivables and bank deposits that are denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("US$") and Renminbi ("RMB").

(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 currencies other than the functional currency of the entity to which they relate.

	The Group		**The Company**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Assets				
Cash and cash equivalents				
US$	**11,621**	491	**8**	8
RMB	**2,539**	29,424	**–**	–
Trade receivables				
US$	**–**	5,827	**–**	–
RMB	**15,248**	41,706	**–**	–
Prepayments, deposits and other receivables				
RMB	**30,928**	123,008	**–**	–
Amounts due from related companies				
RMB	**12,686**	–	**–**	–
Liabilities				
Amounts due to related companies				
US$	**592**	17,881	**–**	–
RMB	**7,297**	21,753	**–**	–
Accruals and other payables				
US$	**4,654**	13	**–**	–
RMB	**7,291**	33,379	**–**	–
Trade payables				
RMB	**31,542**	61,846	**–**	–
Total assets				
US$	**11,621**	6,318	**8**	8
RMB	**61,401**	194,138	**–**	–
Total liabilities				
US$	**5,246**	17,894	**–**	–
RMB	**46,130**	116,978	**–**	–

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(e) 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 consolidated 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 trade and other receivables and payables, and bank deposits and amounts due from and to related companies where the denomination of the balances is in a currencies other than the functional currency.

	2008			2007		
	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$	**5%**	**318**	**–**	5%	(578)	–
	(5%)	**(318)**	**–**	(5%)	578	–
RMB	**5%**	**764**	**–**	5%	3,858	–
	(5%)	**(764)**	**–**	(5%)	(3,858)	–

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 financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

(f) 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 2008 and 2007.

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. Total capital is defined as shareholders' equity over the Group's total debts.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(f) Capital management (cont'd)

The net debt-to-capital ratio as at 31 December 2008 and 2007 were as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Total liabilities		
– Trade and other payables and accruals	**44,462**	96,000
– Amounts due to related companies	**94,546**	39,634
– Amounts due to directors	**–**	1,942
Total debts	**139,008**	137,576
Less : Cash and cash equivalents	**(84,435)**	(30,342)
Net debts	**54,573**	107,234
Total equity	**52,055**	122,622
Net debt-to-capital ratio	**1.05**	0.87

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

(g) Fair values

The fair values of the financial assets and liabilities of the Group and the Company are not materially different from their carrying amounts because of the immediate or short term maturity of these 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 year are discussed below.

(a) Impairment of trade 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) 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

The Group is principally engaged in the manufacture and sale of phosphorus products and trading of optical products. The Group was also engaged in manufacture and sale of PVC products and manufacture of optical products which were discontinued during the current and last years, respectively.

Turnover represents the sales at invoiced 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 is as follows:

	2008 HK$'000	2007 HK$'000
Continuing operations		
Manufacturing and sale of phosphorus products	**593,055**	373,047
Trading of optical products	**34,001**	–
	627,056	373,047
Discontinued operations (note 16(b))		
Manufacturing and sale of optical products	–	114,828
Manufacturing of PVC products	**191,667**	93,959
	191,667	208,787
	818,723	581,834

6. OTHER REVENUE AND NET INCOMES

	2008 HK$'000	2007 HK$'000
Continuing operations		
Bank interest income	**356**	72
Government grants	**851**	–
Commission income received from a related company	–	1,300
Net exchange gain	–	514
Others	**202**	2
	1,409	1,888
Discontinued operations (note 16(b))		
Bank interest income	–	1,456
Government grants	–	774
Rental income	–	166
Others	–	2,992
	–	5,388
	1,409	7,276

7. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Continuing operations	–	–
Discontinued operations (note 16(b))		
Discounting charges	448	–
Other interest (note 33(b))	–	12,316
	448	12,316
	448	12,316

8. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is stated after charging/(crediting) the following:

	2008 HK$'000	2007 HK$'000
Continuing operations		
Staff costs (including directors' remuneration)		
– Salaries, wages and other benefits	24,132	14,166
– Retirement scheme contributions	2,715	862
– Equity-settled share-based payment expenses	772	52
Total staff costs	27,619	15,080
Auditor's remuneration		
– audit service	345	550
– non-audit services	235	310
Cost of inventories sold	598,245	264,084
Depreciation of property, plant and equipment	285	18
Loss on disposal of property, plant and equipment	4	5
Operating lease rentals in respect of properties, machinery and equipment	26,254	24,446
Write-down of inventories	13,349	–

	2008 HK$'000	2007 HK$'000
Discontinued operations (note 16(b))		
Staff costs (including directors' remuneration)		
– Salaries, wages and other benefits	14,154	35,492
– Retirement scheme contributions	1,900	2,328
– Equity-settled share-based payment expenses	–	–
Total staff costs	16,054	37,820
Auditor's remuneration		
– audit service	230	380
– non-audit services	–	80
Cost of inventories sold	192,823	166,895
Depreciation of property, plant and equipment	12	8,896
Impairment on trade receivables	36,368	–
Loss on disposal of property, plant and equipment	3	–
Operating lease rentals in respect of properties, machinery and equipment	28,030	13,504
Write-down of inventories	–	1,151
Accrued interest waived by a minority shareholder (note 33(b))	–	(23,198)

9. 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$'000	2008 Total HK$'000
Executive directors				
Liu Yee Nee (note (i))	–	–	–	–
Louie Mei Po (note (i))	–	–	–	–
Li Wei	–	501	12	513
Zhou Jing	–	363	12	375
Zhao Jun (note (iii))	–	454	12	466
Wang An Kang (note (iv))	–	245	–	245
Independent non-executive directors				
Jacobsen William Keith (note (i))	32	–	–	32
Ng Wai Hung (note (ii))	58	–	–	58
Wu Wang Li (note (ii))	39	–	–	39
Wu Bin (note (iii))	133	–	–	133
Choi Tse Kit, Sammy (note (v))	122	–	–	122
Tam King Ching, Kenny (note (v))	122	–	–	122
	506	1,563	36	2,105

	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				
Wu Bin	180	–	–	180
Choi Tse Kit, Sammy	180	–	–	180
Tam King Ching, Kenny	180	–	–	180
	540	2,060	36	2,636

Notes:

(i) Appointed on 26 September 2008.
(ii) Appointed on 4 September 2008.
(iii) Resigned on 26 September 2008.
(iv) Resigned on 21 July 2008.
(v) Resigned on 4 September 2008.

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.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include three directors (2007: four) whose emoluments are disclosed in note 9 above. Details of the emolument of the remaining two (2007: one) individual are as follows:

	2008 HK$'000	2007 HK$'000
Salaries, allowances and benefits in kind	1,047	953
Equity-settled share-based payment expenses	772	52
Retirment scheme contributions	18	12
	1,837	1,017

The emoluments of the two (2007: one) individual fall within the following bands:

	Number of employees	
	2008	2007
Nil – HK$1,000,000	2	–
HK$1,000,000 – HK$1,500,000	–	1
	2	1

11. INCOME TAX

	2008 HK$'000	2007 HK$'000
Continuing operations		
Current year	–	–

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

	2008 HK$'000	2007 HK$'000
(Loss)/profit before taxation	(20,457)	84,650
Notional tax on (loss)/profit before taxation, calculated at rates applicable to (loss)/profit in the countries concerned	(6,128)	24,520
Tax effect on non-taxable incomes	(52)	(2,970)
Tax effect of non-deductible expenses	181	–
Tax effect of temporary timing differences not recognised	1,740	–
Utilisation of previously unrecognised tax losses	(1,688)	–
Tax effect on unused tax losses not recognised	9,230	1,117
Tax effect of tax exemptions granted to PRC subsidiaries	(3,283)	(22,667)
Tax charge	–	–

11. INCOME TAX (CONT'D)

	2008 **HK$'000**	2007 HK$'000
Discontinued operations (note 16(b))		
Current year		
PRC enterprise income tax	–	63

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

	2008 **HK$'000**	2007 HK$'000
(Loss)/profit before taxation (note 16(c))	**(57,574)**	32,400
Notional tax on (loss)/profit before taxation, calculated at rates applicable to (loss)/profit in the countries concerned	**(14,525)**	6,175
Tax effect on non-taxable incomes	–	(2,184)
Tax effect of non-deductible expenses	**9,374**	–
Tax effect of temporary timing differences not recognised	**6,187**	–
Utilisation of previously unrecognised tax losses	**(537)**	–
Tax effect on unused tax losses not recognised	–	402
Tax effect of tax exemptions granted to PRC subsidiaries	**(499)**	(4,330)
Tax charge	–	63

Notes:

(i) Pursuant to the rules and regulations of British Virgin Islands ("BVI"), the Group is not subject to any income tax in BVI.

(ii) On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

No provision for the Hong Kong Profits Tax has been made as the Group sustained losses in Hong Kong for taxation purposes during years ended 31 December 2008 and 2007.

(iii) 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 Group's subsidiaries Fangcheng Huahai Chemicals Co., Ltd ("Huahai") and Kunming Huadian Chemicals Co., Ltd ("Huadian") are entitled to exemption from the PRC Foreign Enterprise Income Tax ("FEIT") for two years from their first profit making year, followed by a 50% tax relief for the next three years. The first profit making year of Huahai and Huadian was 2006 and 2007, respectively, they were entitled to a 100% exemption from the FEIT and local income tax of 30% and 3% respectively during the year ended 31 December 2007. Pursuant to the New Tax Law, Huahai and Huadian continued to be entitled to a 50% and 100%, respectively, of tax relief from FEIT of 25% during the year ended 31 December 2008. No provision for FEIT has been made for Huahai as it sustained a loss during the year ended 31 December 2008.

12. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes profit of approximately HK$67,813,000 (2007: loss of approximately HK$5,977,000) which has been dealt with in the financial statements of the Company during the year.

13. DIVIDENDS

No dividend was declared and paid for the years ended 31 December 2008 and 2007, nor has any dividend been proposed since the balance sheet date.

14. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

	2008	2007
For continuing and discontinued operations		
(Loss)/profit attributable to equity holders of the Company (HK$'000)	**(78,031)**	116,022
Weighted average number of ordinary shares	**3,124,862,734**	3,124,862,734
Basic (loss)/earnings per share (HK cents)	**(2.50)**	3.71
Continuing operations		
(Loss)/profit attributable to equity holders of the Company (HK$'000)	**(20,457)**	84,650
Weighted average number of ordinary shares	**3,124,862,734**	3,124,862,734
Basic (loss)/earnings per share (HK cents)	**(0.66)**	2.71
Discontinued operations		
(Loss)/profit attributable to equity holders of the Company (HK$'000)	**(57,574)**	31,372
Weighted average number of ordinary shares	**3,124,862,734**	3,124,862,734
Basic (loss)/earnings per share (HK cents)	**(1.84)**	1.00

The basis (loss)/earnings per share is based on the weighted average number of shares of 3,124,862,734 (2007: 3,124,862,734) during the year.

(b) Diluted earnings per share

	2008	2007
For continuing and discontinued operations		
Profit attributable to equity holders of the Company (HK$'000)	**N/A**	116,022
Weighted average number of ordinary shares	**N/A**	3,131,414,458
Diluted earnings per share (HK cents)	**N/A**	3.71
Continuing operations		
Profit attributable to equity holders of the Company (HK$'000)	**N/A**	84,650
Weighted average number of ordinary shares	**N/A**	3,131,414,458
Diluted earnings per share (HK cents)	**N/A**	2.71
Discontinued operation		
Profit attributable to equity holders of the Company (HK$'000)	**N/A**	31,372
Weighted average number of ordinary shares	**N/A**	3,131,414,458
Diluted earnings per share (HK cents)	**N/A**	1.00

No diluted loss per share is presented during the year ended 31 December 2008 as the exercise of the potential dilutive ordinary shares would result in a reduction in loss per share.

The diluted earnings per share during the year ended 31 December 2007 was based on 3,131,414,458 shares which was the weighted average number of shares during the year ended 31 December 2007 adjusted for the number of dilutive potential shares under the share option scheme.

15. SEGMENTS

(a) Business segments

The Group is principally engaged in the following main business segments during the years ended 31 December 2008 and 2007:

Phosphorus products	–	manufacturing and sale of phosphorus products
Optical trading	–	trading of optical products
PVC products	–	manufacturing and sale of PVC products (discontinued during the year ended 31 December 2008)
Optical manufacturing	–	manufacturing and sale of optical products (discontinued during the year ended 31 December 2007)

The segment results and capital expenditure and other segment items for the years ended 31 December 2008 and 2007 and segment assets and liabilities at 31 December 2008 and 2007 are as follows:

2008

	Continuing operations				Discontinued operations	
	Phosphorus products HK$'000	Optical products HK$'000	Unallocated HK$'000	Total HK$'000	PVC products HK$'000 (note 16(b))	Consolidated HK$'000
Segment revenue:						
Revenue from external customers	593,055	34,001	–	627,056	191,667	818,723
Other revenue	1,103	1	305	1,409	–	1,409
Total revenue	594,158	34,002	305	628,465	191,667	820,132
Segment results	(13,184)	(21)	–	(13,205)	(57,126)	(70,331)
Unallocated expenses, net			(7,252)	(7,252)	–	(7,252)
Finance costs				–	(448)	(448)
Loss before income tax				(20,457)	(57,574)	(78,031)
Income tax				–	–	–
Loss for the year				(20,457)	(57,574)	(78,031)
Assets and liabilities:						
Segment assets	90,304	18,165	–	108,469	12,855	121,324
Unallocated assets	–	–	69,739	69,739	–	69,739
Total assets	90,304	18,165	69,739	178,208	12,855	191,063
Segment liabilities	117,823	17,200	–	135,023	3,739	138,762
Unallocated liabilities	–	–	246	246	–	246
Total liabilities	117,823	17,200	246	135,269	3,739	139,008
Other segment information:						
Capital expenditure	1,994	–	–	1,994	–	1,994
Depreciation	293	–	–	293	4	297
Impairment on trade receivables	–	–	–	–	36,368	36,368
Write-down of inventories	13,349	–	–	13,349	–	13,349

15. SEGMENTS (CONT'D)

(a) Business segments (cont'd)

2007

	Continuing operations			Discontinued operations			
	Phosphorus products HK$'000	Unallocated HK$'000	Total HK$'000	Optical products HK$'000	PVC products HK$'000	Total HK$'000 (note 16(a)&(b))	Consolidated HK$'000
Segment revenue:							
Revenue from external customers	373,047	–	373,047	114,828	93,959	208,787	581,834
Other revenue	1,300	588	1,888	4,614	774	5,388	7,276
Total revenue	374,347	588	374,935	119,442	94,733	214,175	589,110
Segment results	93,306	2	93,308	3,078	19,561	22,639	115,947
Unallocated expenses, net	–	(8,658)	(8,658)	–	–	–	(8,658)
Finance costs			–	(12,316)	–	(12,316)	(12,316)
Share of profits and losses of associates			–	6,900	–	6,900	6,900
Accrued interest waived			–	23,198	–	23,198	23,198
Profit before income tax			84,650	20,860	19,561	40,421	125,071
Loss on disposal of subsidiaries			–	(8,021)	–	(8,021)	(8,021)
Income tax			–	(63)	–	(63)	(63)
Profit for the year			84,650	12,776	19,561	32,337	116,987
Assets and liabilities:							
Segment assets	139,962	–	139,962	–	111,660	111,660	251,622
Unallocated assets	–	8,576	8,576	–	–	–	8,576
Total assets	139,962	8,576	148,538	–	111,660	111,660	260,198
Segment liabilities	104,071	–	104,071	–	17,362	17,362	121,433
Unallocated liabilities	–	16,143	16,143	–	–	–	16,143
Total liabilities	104,071	16,143	120,214	–	17,362	17,362	137,576
Other segment information:							
Capital expenditure	633	–	633	997	–	997	1,630
Depreciation	6	23	29	8,885	–	8,885	8,914
Write-down of inventories	–	–	–	1,151	–	1,151	1,151

15. SEGMENTS (CONT'D)

(b) Geographical segments

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

	2008 **HK$'000**	2007 HK$'000
Continuing operations		
The PRC	**461,916**	340,639
East Asia (including Hong Kong)	**165,140**	32,408
Segment revenue from external customers	**627,056**	373,047
Discontinued operations		
The PRC	**171,612**	87,917
East Asia (including Hong Kong)	**20,055**	20,752
United States of America	**–**	44,812
Europe	**–**	48,322
Others	**–**	6,984
Segment revenue from external customers	**191,667**	208,787

Segment assets and capital expenditure are based on the geographical location of the assets.

	Carrying amount of segment assets		**Capital expenditure**	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Continuing operations				
The PRC	**85,848**	140,572	**1,973**	624
East Asia (including Hong Kong)	**92,360**	7,966	**21**	9
	178,208	148,538	**1,994**	633
Discontinued operations				
The PRC	**12,855**	111,660	**–**	949
East Asia (including Hong Kong)	**–**	–	**–**	48
	12,855	111,660	**–**	997
	191,063	260,198	**1,994**	1,630

16. DISCONTINUED OPERATIONS

On 11 September 2008, the Group and Yunphos Group, a related party, entered into a leasing termination agreement, pursuant to which both parties agreed that the Group terminated the leasing of the PVC factory premises, the machinery and equipment for manufacture of its PVC products, as further detailed in note 33(b)(vi). In the opinion of the Company's directors, after the termination of the above leasing, the Group ceased the manufacture and sale of PVC business at 31 December 2008.

16. DISCONTINUED OPERATIONS (CONT'D)

On 2 November 2007, the Company entered into a sale and purchase agreement with an independent third party (the "Purchaser"), pursuant to which the Company agreed to sell and the Purchaser 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$1 in cash. The disposal was completed on 30 November 2007. Profitown Group had been making loss for the past five years prior to the disposal and had net assets of approximately HK$Nil and total liabilities of HK$196,743,000, of which, HK$170,033,000 was payable to Probest Holdings Inc. ("Probest") a minority shareholder of Profitown at the date of disposal. During the year ended 31 December 2007, Probest waived interests of approximately HK$23,198,000 payable by the Profitown Group. Upon completion of the disposal of the 70% equity interest in Profitown Group, the manufacture of optical business segment was discontinued.

(a) The (loss)/profit from the discontinued operations for the years ended 31 December 2008 and 2007 is as follows:

	2008		2007	
	PVC products HK$'000	Optical products HK$'000	PVC products HK$'000	Total HK$'000
(Loss)/profit of discontinued operations for the year (note 16(b))	**(57,574)**	20,797	19,561	40,358
Loss on disposal	**–**	(8,021)	–	(8,021)
(Loss)/profit for the year from discontinued operations after tax	**(57,574)**	12,776	19,561	32,337

(b) **Analysis of the results of discontinued operations**

		2008		2007	
	Note	**PVC products HK$'000**	Optical products HK$'000	PVC products HK$'000	Total HK$'000
Turnover	5	**191,667**	114,828	93,959	208,787
Cost of sales		**(192,823)**	(98,231)	(68,664)	(166,895)
Gross profit/(loss)		**(1,156)**	16,597	25,295	41,892
Other revenue and net incomes	6	**–**	4,614	774	5,388
Selling and distribution cost		**(11,110)**	(9,524)	(3,255)	(12,779)
Administrative expenses		**(8,492)**	(6,204)	(3,253)	(9,457)
Other operating expenses		**–**	(1,254)	–	(1,254)
Write-down of inventories		**–**	(1,151)	–	(1,151)
Impairment on trade receivables	21(b)	**(36,368)**	–	–	–
(Loss)/profit from operations		**(57,126)**	3,078	19,561	22,639
Finance costs	7	**(448)**	(12,316)	–	(12,316)
Share of results of associate		**–**	6,900	–	6,900
Accrued interest waived	33(b)	**–**	23,198	–	23,198
(Loss)/profit from operation before income tax	8	**(57,574)**	20,860	19,561	40,421
Income tax	11	**–**	(63)	–	(63)
(Loss)/profit for the year		**(57,574)**	20,797	19,561	40,358

16. DISCONTINUED OPERATIONS (CONT'D)

(c) Analysis of the cash flows from discontinued operations

	2008		2007	
	Manufacture and sale of PVC products	Manufacture of optical products	Manufacture and sale of PVC products	Total
	HK$'000	HK$'000	HK$'000	HK$'000
(Loss)/profit before income tax (note 16b)	**(57,574)**	20,860	19,561	40,421
Loss on disposal (note 30)	**–**	(8,021)	–	(8,021)
(Loss)/profit before income tax per consolidation cash flow statement	**(57,574)**	12,839	19,561	32,400
Net cash inflow/(outflow) from operating activities	**61,464**	10,613	(98,508)	(87,895)
Net cash inflow from investing activities	**–**	4,707	–	4,707
Net cash (outflow)/inflow from financing activities	**(61,464)**	–	98,508	98,508
Net cash inflow incurred by the discontinued operations	**–**	15,320	–	15,320

(d) Operating lease commitments – discontinued operations

	2008	2007
	HK$'000	HK$'000
Within one year	**–**	228
After 1 year but within 5 years	**–**	684
	–	912

17. 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 1/1/2007	17,587	161,075	51,092	1,542	231,296
Additions	–	334	335	497	1,166
Disposal	–	(9)	–	(80)	(89)
Disposal of subsidiaries (note 30)	(17,587)	(161,314)	(51,206)	(1,953)	(232,060)
At 31/12/2007 and 1/1/2008	–	86	221	6	313
Exchange adjustments	–	5	4	–	9
Additions	–	1,090	86	–	1,176
Transfer from construction in progress (note 18)	–	1,310	–	–	1,310
Disposal	–	–	(10)	–	(10)
At 31/12/2008	–	2,491	301	6	2,798
Accumulated depreciation and impairment					
At 1/1/2007	–	140,382	34,547	1,542	176,471
Charge for the year	733	5,454	2,708	19	8,914
Written back on disposal	–	(4)	–	(80)	(84)
Written back on disposal of subsidiaries (note 30)	(733)	(145,831)	(37,202)	(1,480)	(185,246)
At 31/12/2007 and at 1/1/2008	–	1	53	1	55
Exchange adjustments	–	7	1	–	8
Charge for the year	–	252	44	1	297
Written back on disposal	–	–	(3)	–	(3)
At 31/12/2008	–	260	95	2	357
Net book value					
At 31/12/2008	–	2,231	206	4	2,441
At 31/12/2007	–	85	168	5	258

18. CONSTRUCTION IN PROGRESS

Group

	2008 HK$'000	2007 HK$'000
At 1 January	464	–
Exchange adjustments	28	–
Additions	818	464
Transfer to property, plant and equipment (note 17)	(1,310)	–
At 31 December	–	464

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

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	4	4

The following is a list of the principal subsidiaries at 31 December 2008:

Name	Place of incorporation and operation	Principal activities	Nominal value of issued ordinary/ registered share capital	Interest held	
				Directly	Indirectly
Anchorage Trading Limited	Hong Kong	Sales agent of an overseas principal	HK$1	100%	–
Top Galaxy Trading Ltd	Hong Kong	Trading of optical products	HK$1	100%	–
Advance Base Holdings Ltd	Hong Kong	Consultancy	HK$1	–	100%
Sharp Capital Development Ltd	Hong Kong	Investment holding	HK$1	100%	–
Sharp Universe Ltd	BVI	Consultancy	US$1	100%	–
Brilliant Sign Ltd	BVI	Investment holding	US$1	100%	–
Fangcheng Huahai Chemcials Co., Ltd. (note)	The PRC	Manufacture and sale of phosphorus products	HK$5,000,000	–	100%
Kunming Huadian Chemcials Co., Ltd. (note)	The 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.

20. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**17,056**	21,949
Packaging materials	**718**	3,535
Work in progress	**–**	648
Finished goods	**7,150**	23,549
Sub-materials and parts	**1,463**	7,793
	26,387	57,474

21. TRADE RECEIVABLES

(a) Ageing analysis

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

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

	Group	
	2008	2007
	HK$'000	HK$'000
0 to 30 days	**191**	46,745
31 to 60 days	**302**	784
61 to 90 days	**4,861**	4
91 to 180 days	**44,852**	–
181 to 365 days	**1,375**	–
More than 365 days	**35**	–
	51,616	47,533
Provision for impairment	**(36,368)**	–
	15,248	47,533

(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.

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

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**–**	1,919
Impairment loss recognised (note 16(b))	**36,368**	–
Disposal of subsidiaries	**–**	(1,919)
At 31 December	**36,368**	–

The Group does not hold any collateral over the balance.

As at 31 December 2008, a trade debtor of the Group of HK$36,368,000 was determined to be impaired. The balance was related to customer that was in financial difficulty and management assessed that the recoverability of the balance was remote. Accordingly, specific allowances for doubtful debt of HK$36,368,000 was recognised during the year.

21. TRADE RECEIVABLES (CONT'D)

(c) Trade receivables that are not impaired

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

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**13,838**	47,533
1 to 180 days past due	**1,375**	–
Over 180 days past due	**35**	–
	15,248	47,533

Receivables that were neither past due nor 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.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances to suppliers (note)	**6,046**	112,704	**–**	–
Value added tax refundable	**24,754**	9,898	**–**	–
Prepayments	**108**	1,026	**9**	676
Deposits	**449**	444	**394**	393
Other receivables	**50**	55	**4**	–
	31,407	124,127	**407**	1,069

Note: This amount mainly represents the deposits made to independent third party suppliers to secure the supply of coal and phosphorus materials and is to be offset through delivery of purchases of coal and phosphorus materials in the coming year.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**84,435**	30,342	**27**	16
Cash and cash equivalents	**84,435**	30,342	**27**	16

24. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

25. TRADE PAYABLES

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

	Group	
	2008	2007
	HK$'000	HK$'000
0 to 30 days	**4,754**	30,082
31 to 60 days	**10,320**	18,165
61 to 90 days	**5,279**	557
91 to 180 days	**1,178**	388
181 to 365 days	**9,677**	12,654
Over 365 days	**334**	–
	31,542	61,846

26. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**7,660**	3,499	**214**	2,704
Receipts in advance (note)	**5,160**	22,229	**–**	–
Value added tax payable	**–**	7,430	**–**	–
Other payables	**100**	996	**12**	–
	12,920	34,154	**226**	2,704

Note: Receipts in advance represent 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 to be delivered in the coming year.

27. DEFERRED TAXATION

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unused tax losses	**30,753**	34,942	**30,718**	34,153

The Group and the Company has not recognised deferred assets in respect of cumulated tax losses of HK$186,376,000 (2007: HK$199,668,000) and HK$186,170,000 (2007: HK$195,148,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction. All the Group's and Company's tax losses arise from Hong Kong which do not expire under current tax legislation.

The Group and the Company had no significant potential deferred tax liabilities for which provision has not been made for the years ended 31 December 2008 and 2007.

28. SHARE CAPITAL

	2008	2007
	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 (2007: 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 during the years ended 31 December 2008 and 2007.

29. RESERVES

(a) Group

The amounts of the Group reserves and the movements therein during the year are presented in the consolidated statement of changes in equity.

Notes:

(i) The share premium account represents the excess of the issued price net of any share issue expenses over the par value of the share issued.

(ii) The statutory reserves refer to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of the profit after tax of the statutory financial statements of the PRC subsidiaries and the amount should not be less than 10% of the profit after tax unless the aggregate amount standing to the credit of this reserve exceeds 50% of the registered capital of the PRC subsidiaries. The statutory reserve fund can be used to make up prior year losses of the PRC subsidiaries. During the year, transfers of approximately HK$1,420,000 and HK$6,484,000 were made out of the retained profits to the statutory reserves of the PRC subsidiaries, which represented 10% of the profit after tax based on the PRC subsidiaries for the years ended 31 December 2008 and 2007, respectively.

(iii) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC.

(iv) Special reserve of HK$341,800,000 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 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.

(v) Distributable reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity holders of the Company was HK$Nil (2007: HK$Nil).

(b) Company

	Share premium account HK$'000 (note 29(a)(i))	**Special reserve** HK$'000 (note 29(a)(iv))	**Share option reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2007	723,462	341,800	52	(1,105,340)	(40,026)
Equity-settled share-based payment expenses	–	–	52	–	52
Transfer on disposal of subsidiaries	–	(341,800)	–	341,800	–
Loss for the year	–	–	–	(5,977)	(5,977)
At 31 December 2007	723,462	–	104	(769,517)	(45,951)
At 1 January 2008	723,462	–	104	(769,517)	(45,951)
Equity-settled share-based payment expenses	–	–	772	–	772
Forfeiture of share options	–	–	(112)	112	–
Profit for the year	–	–	–	67,813	67,813
At 31 December 2008	723,462	–	764	(701,592)	22,634

30. DISPOSAL OF SUBSIDIARIES

On 2 November 2007, the Company entered into a sale and purchase agreement with an independent third party, pursuant to which the Company agreed to sell 70% equity interest in the Profitown Group at a nominal consideration of HK$1 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	44,408
Inventories	16,673
Trade receivables	31,674
Prepayments, deposits and other receivables	1,453
Fixed deposits	44,767
Cash and cash equivalents	7,240
Amounts due to a minority shareholder, net	(170,033)
Provision for long service payments	(115)
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	15,901
Loss on disposal (note 16(a))	(8,021)
Net cash outflow arising on disposal:	
Cash consideration	–
Bank balances and cash disposed of	(52,007)
	(52,007)

31. 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 2002 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.

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 2008 and 2007.

Year ended 31 December 2008

Date of share options granted	Outstanding at the beginning of the year	Granted during the year	Exercise during the year	Cancelled 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
29/9/2008	–	12,320,000	–	–	12,320,000	HK$ 0.125	29/9/2008 – 28/9/2013

31. SHARE OPTION SCHEME (CONT'D)

Share options granted and fully accepted during the year ended 31 December 2008:

Date of Grant :	29/9/2008
Vesting Period:	Vested upon granting
Exercise Period :	29/9/2008 – 28/9/2013
Exercise Price :	HK$0.125

	Number of share options granted at 29/9/2008	Share options value at 29/9/2008 (note (ii)) HK$	Number of share options at 31/12/2008
Grantee:			
Employee	12,320,000	764,000	12,320,000

Notes:

(i) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK$0.125

(ii) According to the Trinomial Option Pricing Model, the theoretical aggregate value of the options was estimated at HK$764,000 as at 29 September 2008 (when the options were granted) with the following variables and assumptions:

Share Price	:	HK$0.125
Exercise Price	:	HK$0.125
Risk Free Rate	:	1.80%
Expected Dividend Rate	:	0%
Expected Volatility	:	75.03%
Expected Life of the Options	:	3 years from the date of share options granted

(iii) Options cancelled, 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.

Year ended 31 December 2007

Date of share options granted	Outstanding at the beginning of the year	Granted during the year	Exercise during the year	Cancelled 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

31. 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 share options granted

(iii) Options cancelled, 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.

32. COMMITMENTS

(a) Operating lease commitments

At 31 December 2008, the Group and the Company had commitments for future minimum lease payables under non-cancellable operating leases in respect of land and buildings, machinery and equipment are as follows:

	Group		Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Within one year	**1,581**	105,886	**1,393**	1,393
After 1 year but within 5 years	**639**	82,282	**639**	2,031
	2,220	188,168	**2,032**	3,424

The Group leases of its land and buildings, machinery and equipment, under operating lease arrangements for an initial period of one to three years. None of the leases includes contingent rentals.

32. COMMITMENTS (CONT'D)

(b) Capital commitments

At 31 December 2008, the Group had the following commitments:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted but not provided for:		
Property, plant and equipment	–	1,673

33. RELATED PARTY TRANSACTIONS

(a) During the years ended 31 December 2008 and 2007, the Company's directors are of the opinion that the following companies are related parties of the Group:

Name of the related party	**Relationship**
Rightlink Trading Limited ("Rightlink")	Wang An Kang (note (i)) has beneficial interest
Yunnan Phosphorus Group Co., Ltd ("Yunphos")	Wang An Kang and Zhao Jun (notes (i) and (ii)) have beneficial interests
昆明東磷貿易有限公司 ("昆明東磷")	A subsidiary of Yunphos Group
尋甸南鋒煤業有限公司 ("尋甸南鋒")	A subsidiary of Yunphos Group
雲南南磷集團尋甸磷電有限公司("南磷集團尋甸")	A subsidiary of Yunphos Group
雲南南磷集團電化有限公司 ("南磷集團電化")	A subsidiary of Yunphos Group
雲南南磷集團進出口有限公司 ("南磷集團進出口")	A subsidiary of Yunphos Group
嵩明南西磷化工有限公司 ("嵩明南西磷化工")	A subsidiary of Yunphos Group
雲南南磷集團陸良磷化工有限公司 ("南磷集團陸良磷化工")	A subsidiary of Yunphos Group
防城港南磷磷化工有限公司 ("防城港南磷")	A subsidiary of Yunphos Group
羅平磷化工有限公司 ("羅平磷化工")	A subsidiary of Yunphos Group
Dongguan Hamwell Glasses Co., Ltd. ("Dongguan Hamwell")	Liu Yee Nee (note (iii)) is the legal representative
Probest Holdings Inc. ("Probest")	A minority shareholder of the Company's subsidiary Profitown which was disposed in 2007 (see note 16)
Swank International Optical Company Limited ("Swank International")	Liu Yee Nee and Louie Mei Po (note (iii) and (iv)) are the common directors

Notes:

(i) Mr. Wang An Kang was the Company's executive director and the key management of the Group during the years ended 31 December 2007 and 2008. He resigned as executive director of the Company on 21 July 2008 but continued to act as the position of the key management of the Group's subsidiaries.

(ii) Mr. Zhao Jun was the chairman and the executive director of the Company and the key management of the Group during the years ended 31 December 2007 and 2008. He resigned as the chairman and the executive director of the Company on 26 September 2008 but continued to act as the key management of the Group's subsidiaries.

(iii) Ms. Liu Yee Nee ("Ms. Liu") has been appointed as the chairman and executive director of the Company since 26 September 2008. Ms. Liu resigned as legal representative of Dongguan Hamwell on 15 December 2008. The application of Ms. Liu's resignation as legal representative to the PRC authority is still in progress at the date of this report.

(iv) Ms. Louie Mei Po has been appointed as executive director of the Company since 26 September 2008.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(b) During the years ended 31 December 2008 and 2007, the Group had the following related party transactions:

	Note	**2008** **HK$'000**	2007 HK$'000
南磷集團尋甸			
– rental of phosphorus premises and machinery and equipment	33(b)(iv)	**22,059**	20,484
– purchases of coal	33(b)(viii)	**–**	6,138
– purchase of raw materials	33(b)(iii)	**–**	25,150
– purchase of PVC ancillary materials	33(b)(vii)	**–**	1,349
– purchase of phosphorus ancillary materials	33(b)(x)	**715**	977
南磷集團電化			
– rental of PVC premises machinery and equipment	33(b)(vi)	**27,574**	12,803
– purchases of coal	33(b)(viii)	**–**	391
尋甸南鋒			
– purchases of coal	33(b)(viii)	**10,086**	3,558
昆明東磷			
– purchases of PVC ancillary materials	33(b)(vii)	**11,118**	3,651
– purchase of phosphorus ancillary materials	33(b)(x)	**3,246**	2,709
防城港南磷			
– sales of phosphorus products	33(b)(ii)	**(7,967)**	(4,662)
– rental of phosphorus premises, machinery and equipment	33(b)(v)	**2,757**	2,561
南磷集團進出口			
– sales of phosphorus products	33(b)(ii)	**(190,511)**	(178,652)
– sales of PVC products	33(b)(ix)	**(70,588)**	(11,048)
– commission expenses	33(b)(i)	**–**	687
– purchases of goods		**–**	555
嵩明南西磷化工			
– purchases of raw materials	33(b)(iii)	**241,663**	16,321
南磷集團陸良磷化工			
– purchases of raw materials	33(b)(iii)	**9,083**	17,256
羅平磷化工			
– purchase of raw materials	33(b)(iii)	**13,962**	–
Dongguan Hamwell			
– purchase of optical products	33(b)(xii)	**32,301**	–
Rightlink			
– commission income	33 (b)(xi)	**–**	(1,300)
Swank International			
– sale of optical products	33(b)(xiii)	**(34,001)**	–
Probest			
– Waiver of amounts due by Profitown Group prior to the disposal (note 16(b))		**–**	(23,198)
– Interest paid and payable (note 16(b))	33(b)(xiv)	**–**	12,316

(i) The sales and purchases were priced on terms agreed between the Group and the respective related parties.

(ii) Saved as disclosed in (i) above, 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.

33. RELATED PARTY 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 ("Guangxi Agency Agreement"), pursuant which Yunphos Group was 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 was 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 phosphorus-related products between an associate of Yunphos and an independent third party under which the agency fee was 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 was 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 was 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.

The Guangxi Agency Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Guangxi Agency Agreement, the Group's agency fee received and receivable from 南磷集團進出口 amounted to HK$Nil for the year ended 31 December 2008 (2007: HK$687,000 (RMB671,000)).

(ii) Guangxi Distribution Agreement

On 11 May 2006, the Group and Yunphos Group entered into a distribution agreement ("Guangxi Distribution Agreement"), pursuant to which Yunphos Group purchased 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 was 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 should 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.

The Guangxi Distribution Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Guangxi Distribution Agreement, the Group's sales of phosphoric acid products to 南磷集團進出口 and 防城港南磷 in aggregate amounted to HK$198,478,000 (RMB179,949,000) (2007: HK$183,314,000 (RMB178,983,000)) for the year ended 31 December 2008.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(iii) Guangxi Raw Materials Purchase Agreement

On 11 May 2006, the Group and Yunphos Group entered into an agreement ("Guangxi Raw Materials Purchase Agreement"), pursuant to which the Group purchased yellow phosphorus from Yunphos Group for the production of phosphoric acid in the Group's premises in Guangxi (details refer to note 33(a)(v)) for a term up to 31 December 2008. The quantity and specification of yellow phosphorus supplied by Yunphos Group to the Group were subject to the requirements under each individual order placed by the Group to Yunphos Group from time to time. The price payable by the Group was determined after arm's length negotiation at a price level not higher than the price chargeable by independent third parties. The invoiced amount payable by the Group should be settled within 30 days upon receipt of the relevant raw materials. The Guangxi Raw Materials Purchase Agreement provided that Yunphos Group would preferentially supply the raw materials to the Group before such raw materials were 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.

The Guangxi Raw Materials Purchase Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Guangxi Raw Materials Purchase Agreement, the Group's purchases of yellow phosphorus from 南磷集團尋甸,嵩明南西磷化工,南磷集團陸良磷化工 and 羅平磷化工 in aggregate amounted to HK$264,708,000 (RMB239,997,000) (2007: HK$58,727,000 (RMB57,339,000)) for the year ended 31 December 2008.

(iv) Yunnan Leasing Agreement

On 11 May 2006, the Group and Yunphos Group entered into a leasing agreement ("Yunnan Leasing Agreement"), pursuant to which 南磷集團尋甸 leased to the Group the production factory and ancillary structures with a gross floor area of 51,793 square meters located at Jin Suo Xiang Industrial Small District, Xundian County, Kunming City, Yunnan Province, the PRC (the "Yunnan Premises"), and the machinery and equipment (the "Yunnan Machinery and Equipment") for the production of yellow phosphorus for a term up to 31 December 2008. The Yunnan Premises comprised mainly two factory premises including on phosphorus 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 generated and supplied electricity to the phosphorus plant for the manufacture of yellow phosphorus. 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.

The Yunnan Leasing Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Yunnan Leasing Agreement, the Group's rental paid and payable for Yunnan Premises and the Yunnan Machinery and Equipment to 南磷集團尋甸 amounted to HK$22,059,000 (RMB20,000,000) (2007: HK$20,484,000 (RMB20,000,000)) for the year ended 31 December 2008.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(v) Guangxi Leasing Agreement

On 11 May 2006, the Group and Yunphos Group entered into an agreement ("Guangxi Leasing Agreement") under which 防城港南磷 leases to the Group the premises which was located at Huagang Road, Yu Zhou Cheng Industrial Zone, Gangkou District, Fangchenggang City, Guangxi Zhuang Zu Autonomous Region, the PRC (the "Guangxi Premises") with a gross floor area of 6,877 square meters together with the machinery and equipment (the "Guangxi Machinery and Equipment") therein for a term up to 31 December 2008. The Guangxi Premises and the Guangxi Machinery and Equipment were leased for use by 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 not higher than the fair rental for the lease of the Guangxi Premises and the Guangxi Machinery and Equipment. Further details of the Guangxi Leasing 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.

The Guangxi Leasing Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Guangxi Leasing Agreement, the Group's rental paid and payable to 防城港南磷 amounted to HK$2,757,000 (RMB2,500,000) (2007: HK$2,561,000 (RMB2,500,000)) for the year ended 31 December 2008.

(vi) PVC Leasing Agreement

On 9 July 2007, the Group entered into an agreement ("PVC Leasing Agreement") with Yunphos Group in relation to the lease of the PVC premises and the machinery and equipment for a term commencing from 1 November 2007 to 31 December 2009. The PVC premises occupied a gross floor area of 103,967 square metre located at Jin Suo Industrial Small District, Xundian Hui Zu Yi Zu Autonomous County, Kunming City, Yunnan Province, the PRC. These premises comprised 58 factory buildings for the production of PVC and other chemical products and power generation facilities. the Group had 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, the renewal terms should be determined by both parties with reference to the then prevailing market rental and at a term that was not less favourable than rent offered by independent third parties.

Under the terms of the PVC Leasing Agreement, the annual rental would 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 became effective should be calculated on a prorate basis with reference to the number of days leased during that quarter and, after deducting the installment of RMB2 million 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 were fair and reasonable so far as the interest of the independent shareholders were concerned and were 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.

On 11 September 2008, the Group and Yunphos Group entered into a leasing termination agreement (the "PVC Leasing Termination Agreement"), pursuant to which both parties agreed to terminate the PVC Leasing Agreement with effect from 11 September 2008 and neither party was liable to make any compensation to the other party. Further details were set out in the Company's circular dated 8 October 2008.

In accordance with the PVC Leasing Agreement, the Group's rental paid and payable to Yunphos Group amounted to HK$27,574,000 (RMB25,000,000) (2007: HK$12,803,000 (RMB12,500,000)) for the year ended 31 December 2008 and was entitled to a waiver of rental payable to Yunphos Group of HK$41,361,000 (RMB37,500,000) (2007: HK$Nil).

33. RELATED PARTY TRANSACTIONS (CONT'D)

(vii) PVC Ancillary Materials Procurement Agreement

On 9 July 2007, the Group and Yunphos Group entered into an agreement (the "PVC Ancillary Material Procurement Agreement") under which the Group agreed to purchase ancillary materials for its PVC operations, for a term commencing from 23 August 2007 to 31 December 2009. These materials were used for repairing and, or maintaining the production facilities of PVC products. The quantity and specification of ancillary materials supplied by Yunphos Group and, or its associates to the Group were subject to the individual order placed by the Group from time to time. The unit price payable by the Group would 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 third party suppliers to the Group for the same materials of component. The purchase was 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 PVC Ancillary Materials Procurement Agreement, the Group's purchases from 南磷集團尋甸 and 昆明東磷 amounted to HK$11,118,000 (RMB10,080,000) (2007: HK$5,000,000 (RMB4,881,000)) for the year ended 31 December 2008.

(viii) Yunnan Factories Coal Supply Contract

On 9 July 2007, the Group and Yunphos Group entered into an agreement ("Yunnan Factories Coal Supply Contract") under which the Group purchased up to approximately 150,000 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. The quantity and specification of coal supplied by Yunphos Group and, or its associates to the Group were 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 was 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 should be settled within 30 days upon receipt of the coal purchased. Further details were 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.

The Yunnan Factories Coal Supply Contract expired on 31December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Yunnan Factories Coal Supply Contract, the Group's purchases of coal from 南磷集團電化,南磷集團尋甸 and 尋甸南鋒 in aggregate amounted to HK$10,086,000 (RMB9,144,000) (2007: HK$10,087,000 (RMB9,848,000)) for the year ended 31 December 2008.

(ix) PVC Distribution Agreement

On 9 July 2007, the Group and Yunphos Group entered into an agreement ("PVC Distribution 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 2009. The selling price was no less favourable than the price offered by the Group to any independent customers for the same product. Yunphos Group was 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 was made within 30 days from the date Yunphos Group received the products. Further details were 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, the Group's sales of sodium tripolyphosphate to 南磷集團進出口 amounted to HK$70,588,000 (RMB63,998,000) (2007: HK$11,048,000 (RMB10,787,000)) for the year ended 31 December 2008.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(x) Phosphorus Ancillary Materials Procurement Agreement

On 9 July 2007, the Group and Yunphos Group entered into an agreement (the "Phosphorus Ancillary Materials Procurement Agreement") under which the Group agreed to purchase from Yunphos Group ancillary materials for repairing and, or maintaining production facilities for phosphorus products. The agreement was effective for a term commencing from 23 August 2007 to 31 December 2008. The quantity and specification of ancillary materials were 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 was settled within 30 days from the end of each month. Further details of the agreement were 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.

The Phosphorus Ancillary Materials Procurement Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Phosphorus Ancillary Materials Procurement Agreement, the Group's purchases of phosphorus ancillary materials from 南磷集團尋甸 and 昆明東磷 in aggregate amounted to HK$3,961,000 (RMB3,591,000) (2007: HK$3,686,000 (RMB3,599,000)) for the year ended 31 December 2008.

(xi) Rightlink Agency Agreement

On 5 July 2005, the Group and Rightlink entered into an agreement (the "Rightlink Agency Agreement"), pursuant to which the Group provided 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$Nil (2007: HK$1,300,000) for the year ended 31 December 2008.

(xii) During the year ended 31 December 2008, the Group had purchases of optical products from Dongguan Hamwell of HK$32,301,000 (2007: Nil). The purchases were priced on the terms agreed between the Group and the related party.

(xiii) During the year ended 31 December 2008, the Group had sales of optical products to Swank International of HK$34,001,000 (2007: Nil). The sales were priced on terms agreed between the Group and the related party.

(xiv) Loan Restructuring Agreement

On 20 January 2005, the Company, Probest and Profitown entered into an agreement (the "Loan Restructuring Agreement"), pursuant to the terms of the Loan Restructuring Agreement, Profitown issued new 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 old promissory note. Pursuant to the terms of the Loan Restructuring Agreement, the Company executed a guarantee in favour of Probest (the "Swank Guarantee") to guarantee Profitown's obligations in respect of interest payable under the new promissory note. The Swank Guarantee was released by Probest upon the disposal of the 70% equity interest in Profitown Group in 2007.

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

33. RELATED PARTY TRANSACTIONS (CONT'D)

(c) Amounts due from related companies

	2008 HK$'000	2007 HK$'000
Trade balances:		
Yunphos Group	12,686	–
Swank International	17,465	–
	30,151	–

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

(d) Amounts due to related companies

	2008 HK$'000	2007 HK$'000
Non-trade balances:		
Rightlink	69,681	–
Yunphos Group	373	–
Trade balances:		
Rightlink	219	17,881
Yunphos Group	7,297	21,753
Dongguan Hamwell	16,976	–
	94,546	39,634

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

(e) Amounts due to directors

	2008 HK$'000	2007 HK$'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.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(f) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2008 **HK$'000**	2007 HK$'000
Short-term employee benefits	**2,610**	3,013
Post-employment benefits	**54**	48
Equity compensation benefits	**772**	52
	3,436	3,113

Total remuneration is included in "staff costs" (note 8).

34. POST BALANCE SHEET DATE EVENTS

(a) On 8 January 2009, the Company entered into the subscription agreement with Gouw Hiap Kian ("Mr. Gouw"), pursuant to which the Company agreed to issue and allot and Mr. Gouw agreed to subscribe for a total of 84,880,636 ordinary shares of the Company of HK$0.01 each at the subscription price of HK$0.09425 each. The share subscription was completed on 6 February 2009. Further details are set out in the Company's announcement on 8 January 2009.

(b) On 2 March 2009, Anchorage Trading Limited ("Anchorage"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with an independent third party (the "Purchaser"), pursuant to which Anchorage agreed to dispose of the entire equity interest of Huahai, a direct wholly owned subsidiary of Anchorage, for an initial consideration (the "Initial Consideration") of RMB26,000,000 (equivalent to HK$29,491,000) which is subject to adjustments based on the audited net asset value of Huahai as at 31 December 2008. If the audited net asset value of Huahai is lower than RMB 26 million, the consideration will be the audited net asset value. If the audited net asset value is higher than RMB 30 million, the consideration will be increased by the amount equivalent to the difference between the audited net asset value and RMB 30 million. If the audited net asset value is more than or equal to RMB 26 million but less than or equal to RMB 30 million, the consideration will be equal to the Initial Consideration. At the date of this report, the Group received a deposit of approximately HK$8,268,000 from the Purchaser and the disposal transaction has not completed. Further details are set out in the Company's circular dated 25 March 2009.

35. ULTIMATE HOLDING COMPANY

The directors regard Sinogreat Limited, a Company incorporated in the British Virgin Islands, as being the ultimate holding company.

36. COMPARATIVE FIGURES

Certain comparative figures have been restated in compliance with HKFRS 5 "Non-current Assets Held for Sales and Discontinued Operations" from the discontinued operations of the Group's PVC business during the year.