

# Interim Report **2007**



**Swank International Manufacturing Co., Ltd.**

(Stock Code: 663)

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors:

Wang An Kang  
Zhao Jun  
Li Wei  
Zhou Jing

#### Independent Non-Executive Directors:

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

### COMPANY SECRETARY

Tang Suk Ngao, Raymond

### AUDIT COMMITTEE

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

### REMUNERATION COMMITTEE

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

### AUTHORISED REPRESENTATIVES

Tang Suk Ngao, Raymond  
Choi Tze Kit, Sammy

### QUALIFIED ACCOUNTANT

Tang Suk Ngao, Raymond

### AUDITORS

CCIF CPA Limited

### LEGAL ADVISERS

Sidley Austin

### REGISTERED OFFICE

Suite 1102, 11/F.,  
ICBC Tower  
Citibank Plaza  
3 Garden Road  
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>



## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

### TO THE BOARD OF DIRECTORS OF SWANK INTERNATIONAL MANUFACTURING CO. LIMITED

*(Incorporated in Hong Kong with limited liability)*

#### Introduction

We have reviewed the interim financial statements set out on pages 3 to 17, which comprise the condensed consolidated balance sheet of Swank International Manufacturing Co., Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flows statement for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and fair presentation of this interim financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liabilities to any other person for the contents of this report.

#### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

#### CCIF CPA Limited

Certified Public Accountants

Hong Kong, 24 September 2007

#### Leung Chun Wa

Practising Certificate Number P04963

The Board of Directors (the "Board") of Swank International Manufacturing Company Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007. The interim financial results are prepared on the basis consistent with the accounting policies and method adopted in the Company's 2006 audited financial statements. The interim financial results have been reviewed by the Company's Audit Committee. The interim financial results are unaudited, but have been reviewed by CCIF CPA Limited, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Notes	Six months ended 30 June	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
<b>Turnover</b>	3	169,919	61,468
Cost of sales		(124,505)	(59,619)
Gross profit		45,414	1,849
Other income		3,853	3,226
Selling and distribution costs		(7,146)	(6,611)
Administrative expenses		(10,320)	(8,998)
Other operating expenses		(1,355)	(4,051)
Impairment loss of inventories		(714)	(1,483)
<b>Profit/(loss) from operations</b>	4	29,732	(16,068)
Finance costs		(6,784)	(6,862)
Gain on disposal of land use rights and buildings		–	3,608
Share of results of associates		4,094	9,163
<b>Profit/(loss) before income tax</b>		27,042	(10,159)
Income tax	5	(1,903)	(476)
<b>Profit/(loss) for the period</b>		25,139	(10,635)
Attributable to:			
Equity holders of the Company		25,062	(8,390)
Minority interests		77	(2,245)
		25,139	(10,635)
<b>Dividends</b>	6	–	–
<b>Earnings/(loss) per share</b>	7		
– Basic		0.8 cents	(0.3 cents)
– Diluted		0.8 cents	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007 and 31 December 2006

		As at	
		30 June 2007	31 December 2006
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	50,161	54,825
Interests in associates		54,563	50,100
		104,724	104,925
<b>Current assets</b>			
Inventories		132,654	43,258
Trade receivables	9	63,777	29,750
Bills receivable		–	78
Prepayments, deposits and other receivables		24,324	12,619
Fixed deposits		31,192	29,991
Cash and bank balances		13,910	7,404
		265,857	123,100
<b>Total assets</b>		370,581	228,025
<b>EQUITY</b>			
Share capital	14	31,249	31,249
Reserves		3,375	(23,167)
Equity attributable to equity holders of the Company		34,624	8,082
Minority interests		(16,789)	(16,866)
<b>Total equity</b>		17,835	(8,784)

## CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2007 and 31 December 2006

		As at	
		30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Notes			
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
	13	55,469	53,579
		115	115
		55,584	53,694
<b>Current liabilities</b>			
	10	7,339	6,729
	11	154,832	48,206
	12	132,208	127,335
		2,783	845
		297,162	183,115
<b>Total liabilities</b>		352,746	236,809
<b>Total equity and liabilities</b>		370,581	228,025
<b>Net current liabilities</b>		(31,305)	(60,015)
<b>Total assets less current liabilities</b>		73,419	44,910

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2007

	Attributable to equity holders of the Company											Minority interests	Total equity
	Issued share capital	Share premium account	Property revaluation reserve	Exchange fluctuation reserve	Capital reserve	Special reserve	Share option reserve	Statutory reserve	Enterprise development fund	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 adjustments on translations of foreign subsidiaries	-	-	-	1,454	-	-	-	-	-	-	1,454	-	1,454
Recognition of equity settled share-based payment expenses	-	-	-	-	-	-	26	-	-	-	26	-	26
Transfer	-	-	-	-	-	-	-	1,982	2,325	(4,307)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	25,062	25,062	77	25,139
At 30 June 2007	31,249	723,462	-	10,005	8	341,800	78	1,982	2,325	(1,076,285)	34,624	(16,789)	17,835

	Attributable to equity holders of the Company											Minority interests	Total equity
	Issued share capital	Share premium account	Property revaluation reserve	Exchange fluctuation reserve	Capital reserve	Special reserve	Share option reserve	Statutory reserve	Enterprise development fund	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	31,249	723,462	21,043	8,551	8	341,800	-	-	-	(1,148,000)	(21,887)	36,561	14,674
Realised property reserve upon disposal of land and building	-	-	(21,043)	-	-	-	-	-	-	20,508	(535)	535	-
Realised minority interests upon paying compensation to minority interests	-	-	-	-	-	-	-	-	-	36,084	36,084	(45,084)	(9,000)
Recognition of equity settled share-based payment expenses	-	-	-	-	-	-	26	-	-	-	26	-	26
Loss for the period	-	-	-	-	-	-	-	-	-	(8,390)	(8,390)	(2,245)	(10,635)
At 30 June 2006	31,249	723,462	-	8,551	8	341,800	26	-	-	(1,099,798)	5,298	(10,233)	(4,935)

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Net cash from/(used in) operations	5,672	(2,537)
Net cash inflow from investing activities	581	8,080
<b>Net increase in cash and cash equivalents</b>	<b>6,253</b>	<b>5,543</b>
Cash and cash equivalents at beginning of the period	37,395	30,974
Effect of foreign exchange rate changes	1,454	–
<b>Cash and cash equivalents at end of the period</b>	<b>45,102</b>	<b>36,517</b>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	13,910	18,464
Fixed deposits with original maturity less than three months when acquires	31,192	18,053
	45,102	36,517



## NOTES TO CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial report (the "interim financial report") has been reviewed by the Company's auditor, CCIF CPA Limited, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim financial report has also been reviewed by the Company's audit committee.

This interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. This interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are relevant to the Group and are mandatory for financial year ending 31 December 2007:

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

The adoption of these new standards, amendments to standards and interpretations has no significant impact on the Group interim results and financial position.

The following new standard and interpretation, which are relevant to the Group, have been issued but are not effective for 2007 and have not been early adopted by the Group:

HKFRS 8	Operating Segments
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of these new standard or interpretation will have no material impact on the financial statements of the Group and will not result in substantial changes to the Group's accounting policies.

## 2. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of phosphoric products and the design, manufacture and sale of optical products. The directors of the Company regard the business segment as the primary reporting format because it reflect the Group's risks and returns. The secondary segment format, representing the principal markets of the Group's products, is mainly divided into six geographical areas, namely the United States of America, Europe, East Asia, Hong Kong, The People's Republic of China ("Mainland PRC") and others.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to the third parties at the then prevailing market prices.

### (a) Business segments

The Group comprises the following main business segments:

- (i) Phosphorus business: manufacture and sale of phosphoric products for industrial use;
- (ii) Optical business: design, manufacture and sale of optical products.

An analysis of the Group's segment turnover and contribution to operating profit/(loss) for the period by business segment is as follows:

	Turnover		Operating profit/(loss)	
	Six months ended 30 June			
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Phosphorus	100,345	–	31,097	–
Optical	69,574	61,468	2,930	(12,915)
Unallocated	–	–	(4,295)	(3,153)
	169,919	61,468	29,732	(16,068)

### (b) Geographical segments

In determining the Group's geographical segments, turnover are attributed to the segment based on the location of the customers.

An analysis of the Group's segment turnover for the period by geographical segment is as follows:

	Turnover	
	Six months ended 30 June	
	2007	2006
	HK\$	HK\$
	(unaudited)	(unaudited)
United States of America	26,720	27,690
Europe	27,815	22,987
East Asia	1,591	–
Hong Kong	12,037	2,877
Mainland PRC	98,757	4,432
Others	2,999	3,482
	169,919	61,468

### 3. TURNOVER

Turnover represents the invoiced value of goods sold, net of value added tax, returns and allowances.

### 4. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is stated after charging the following:

	Six months ended 30 June	
	2007	2006
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Amortisation of land use rights	–	247
Cost of inventory consumed	124,505	59,619
Depreciation	4,875	5,447
Retrenchment costs	1,355	4,051
Exchange losses, net	381	463

### 5. INCOME TAX

No Hong Kong profits tax has been provided in the financial statements as the companies within the Group have either accumulated tax loss brought forward, which exceed the estimated assessable profits for the period, or did not have any assessable profits for the period.

Overseas taxation is calculated at the rates prevailing in the respective jurisdiction.

The amount of taxation charged to the consolidated income statement represents:

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Charge for the PRC enterprise income tax		
– Provision in current period	1,903	–
– Under provision in prior period	–	476
	1,903	476

The charge for PRC enterprise income tax is calculated at the statutory rate 33% (six months ended 30 June 2006: 33%) on the estimated assessable profits of the PRC subsidiaries for the six months ended 30 June 2007.

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law will be effective from 1 January 2008. The impact of the new tax law on the Group's condensed consolidated financial statements will depend on the detailed implementation rules and regulations that have not been issued as of the date of the approval of these condensed consolidated financial statements. Therefore, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

## 6. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: HK\$ Nil).

## 7. EARNINGS/(LOSS) PER SHARE

### Basic

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company for the six months ended 30 June 2007 of approximately HK\$25,062,000 (six months ended 30 June 2006: loss of approximately HK\$8,390,000) and the weighted average number of ordinary shares in issue during six months ended 30 June 2007 of 3,124,862,734 (six months ended 30 June 2006: 3,124,862,734).

### Diluted

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company for the six months ended 30 June 2007 of approximately HK\$25,062,000 and the weighted average number of ordinary shares of 3,134,862,734, being the weighted average number of ordinary shares of 3,124,862,734 in issue during six months ended 30 June 2007 used in the basic earnings per share calculation, plus the weighted average number of ordinary shares of 10,000,000 assumed to have been issued at no consideration on the deemed exercise of the share option outstanding at the balance sheet date.

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2006.

The calculation of the basic and diluted earnings/(loss) per share is based on the following:

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings/(loss)		
Earnings/(loss) for the purpose of calculating basic and diluted earnings/(loss) per share	25,062	(8,390)
Number of shares		
Weighted average number of ordinary shares of the purpose of calculating basic earnings/(loss) per share	3,124,862,734	3,124,862,734
Effect of dilutive potential ordinary shares arising from share options outstanding	10,000,000	N/A
Weighted average number of ordinary shares of diluted earnings per share	3,134,862,734	N/A

## 8. PROPERTY, PLANT AND EQUIPMENT

	As at	
	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Cost		
At the beginning of the period/year	231,296	275,458
Additions	211	7,621
Disposals	(374)	(50,770)
Deficit on revaluation	–	(1,013)
At the end of the period/year	231,133	231,296
Depreciation		
At the beginning of the period/year	176,471	195,050
Provided in the period/year	4,875	11,245
Written back on disposals	(374)	(33,981)
Impairment loss recognised	–	4,988
Deficit on revaluation	–	(831)
At the end of the period/year	180,972	176,471
Net book value	50,161	54,825

## 9. TRADE RECEIVABLES

The normal credit period granted by the Group to customers ranges from 30 days to 120 days. All of the trade receivables are expected to be recovered within one year.

The aging analysis of trade receivables, based on payment due date and net of provisions, is as follows:

	As at	
	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Current to 30 days	60,455	26,354
31 to 60 days	1,430	1,811
61 to 90 days	136	517
More than 90 days	2,455	2,987
	64,476	31,669
Less: Impairment loss	(699)	(1,919)
	63,777	29,750

Included in the above trade receivables is an amount approximately HK\$22,778,000 (31 December 2006: HK\$Nil) receivable from a related company in which Mr. Wang An Kang has beneficial interests.

## 10. AMOUNTS DUE TO ASSOCIATES

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

## 11. TRADE AND OTHER PAYABLES

	As at	
	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Trade payables	131,797	32,030
Other payables	23,035	16,176
	154,832	48,206

The aging analysis of trade payables, based on payment due date, is as follows:

	As at	
	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Current to 30 days	91,446	17,517
31 to 60 days	15,096	4,694
61 to 90 days	6,921	5,272
More than 90 days	18,334	4,547
	131,797	32,030

Included in the above trade payables is an amount approximately HK\$24,165,000 (31 December 2006: HK\$11,460,000) payable to a related company in which Mr. Wang An Kang has beneficial interests.

## 12. PROMISSORY NOTE PAYABLE

	As at	
	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Interest payable on demand	19,923	15,050
Principal repayable within 1 year	112,285	112,285
Total	132,208	127,335

The promissory note payable to shareholder, Probest Holdings Inc. ("Probest"), is unsecured with maturity date on 2 December 2007 and bearing interest at the rate equivalents to 1% over the prevailing Hong Kong prime rate per annum on the principal amount.

### 13. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder, Probest, is unsecured, bearing interest at a rate equivalent to 1% over prevailing Hong Kong prime rate per annum and has no fixed repayment terms. In the opinion of the directors of the Company, the amount due to a shareholder will not be repayable within the next 12 months from the balance sheet date.

### 14. SHARE CAPITAL

	As at	
	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
<i>Authorised:</i>		
300,000,000,000 ordinary shares of HK\$0.01 each	3,000,000	3,000,000
<i>Issued and fully paid:</i>		
3,124,862,734 ordinary shares of HK\$0.01 each	31,249	31,249

### 15. SHARE OPTION SCHEME

The following table shows the movement of the Company's share options during the six months ended 30 June 2007.

#### Employee

Date of share options granted	Outstanding at the beginning of the period	Granted during the period	Exercise during the period	Outstanding at the end of the period	Subscription price (HK\$)	Exercise period
15.12.2005	10,000,000	-	-	10,000,000	0.10	24.2.2008- 23.8.2011

In assessing the theoretical aggregate value of the share options granted in previous period, the Black-Scholes option pricing model which was performed by an independent valuer has been used. In the current period, an amount of share option expense of approximately HK\$ 26,000 has been recognized (six month ended 30 June 2006: HK\$26,000).



## 16. COMMITMENTS

### a) Operating lease commitments

	As at	
	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Minimum lease payments paid under operating leases		
– Within one year	3,929	3,155
– In the second to the fifth year inclusive	5,970	–
	9,899	3,155

The Group leases certain of its office properties and warehouses under the operating lease arrangements. Leases for office properties and warehouses are negotiated for terms ranging from 1 to 3 years.

### b) Capital commitment

The Group did not have significant capital commitments at 30 June 2007 and 31 December 2006.

## 17. RELATED PARTY TRANSACTIONS

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Sales of finished goods to		
– associates	–	4,301
– related company	78,675	–
Purchase of raw materials and finished goods from		
– associates	2,908	4,095
– related company	30,731	–
Commission income received from a related company	479	922
Management fee income from associates	185	214
Interest expenses charged by a shareholder	6,762	8,063
Rental paid to a		
– joint venture partner	–	1,297
– related companies	11,250	–

## 17. RELATED PARTY TRANSACTIONS (CONTINUED)

	As at	
	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Trade receivables from related company	22,778	–
Trade payables to related company	24,165	11,460
Amount due to a shareholder, Probest	55,469	53,579
Promissory note payable	132,208	127,335

## 18. CONTINGENT LIABILITIES

At 30 June 2007, the Group had contingent liabilities of RMB9,500,000 (31 December 2006: RMB 9,500,000) equivalent to approximately HK\$9,765,000 (31 December 2006: HK\$9,450,000) in relation to a provision of a guarantee issued by a subsidiary of the Group to a minority equity holder of another subsidiary of the Group regarding any potential loss that may be borne by this equity holder during the winding up process of the subsidiary.

## 19. POST BALANCE SHEET EVENTS

On 9 July 2007, the Group entered into five related parties transactions with a related party. These agreements enable the Group to commence its business in the manufacture and sale of polyvinylchloride and streamline its existing phosphorus manufacture business. In accordance with the Listing Rules issued by The Stock Exchange of Hong Kong Limited, these agreements have been approved and ratified by the Group's independent equity holders during the Group's extraordinary general meeting held on 23 August 2007.

## 20. ULTIMATE HOLDING COMPANY

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

## INTERIM DIVIDENDS

The Board has resolved that no interim dividend will be declared in respect of the six months ended 30 June 2007 (2006: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results and Business Review

Further to the Group's extension into the business of the manufacturing and sale of phosphoric acid in 2006, the Group successfully launched its manufacture and sale business of yellow phosphorus in Yunnan, the PRC in January 2007. This also enables the Group to further streamline its phosphorus business by supplying a major portion of yellow phosphorus as an upstream material to its existing phosphoric acid manufacturing business and, at the same time, further increase the Group's overall profitability. As a result, the Group recorded a profit before minority interests of approximately HK\$25.1 million compared with a loss of approximately HK\$10.6 million for the corresponding period last year representing an increase of approximately HK\$35.7 million.

The Group recorded a turnover of approximately HK\$100.3 million for its phosphorus business and approximately HK\$69.6 million for its optical business. The total turnover was approximately HK\$169.9 million representing an increase of approximately 176.43% compared with the corresponding period last year. Gross profit and operating profit (loss) were approximately HK\$45.4 million and approximately HK\$29.7 million respectively (2006: approximately HK\$1.8 million and approximately HK\$(16.1) million respectively for the corresponding period). These improvements are mainly due to the successful introductions of the phosphorus businesses, which are the manufacturing and sale of phosphoric acid and yellow phosphorus, in the second half of 2006 and the beginning of 2007 respectively. Profit before taxation was approximately HK\$27.0 million representing a substantial increase of approximately HK\$37.2 million compared with the corresponding period last year.

Finance costs mainly represent the interest on a promissory note and a loan due to a shareholder, Probest.

### Phosphorus business

As a result of the successful launching of the phosphorus businesses, which are the manufacturing and sale of phosphoric acid and yellow phosphorus, in the second half of 2006 and the beginning of 2007 respectively, the Group recorded a total sales orders of approximately HK\$142.3 million for the period (2006 – nil for the corresponding period). Sales networks have been further extended in the PRC domestic market for its newly introduced yellow phosphorus business as well as the South East Asia region for its phosphoric acid business. Operating profit was approximately HK\$31.1 million for the current period.

### Optical business

The Group recorded an operating profit/(loss) of approximately HK\$2.9 million (2006 – approximately HK\$(12.9) million for the corresponding period). This is mainly due to cost being saved and improvements in production efficiencies as a result of the consolidation of the two manufacturing plants into one in the Dongguan production centre in 2006. Total sales orders of approximately HK\$62.1 million (2006 – approximately HK\$52.5 million for the corresponding period). The Group also recorded a share of profit of approximately HK\$4.1 million (2006 – approximately HK\$9.2 million for the corresponding period) from the Group's associates.

## Future Outlook

Further to the introduction of the agency services business in 2005 in relation to the sale of chemicals including phosphorus and other related materials, the Group has successfully launched its manufacture and sale of phosphoric acid and yellow phosphorus businesses in the Mainland China in the second half of 2006 and the beginning of 2007 respectively. The Board is satisfied with the Group's latest developments both in the optical business and in its diversifications into phosphorus business.

The Board continues to seek for opportunities to further broaden the Group's income base on its expertise. Hence, the Group entered into certain agreements enabling it to further expand its business into the manufacture and sale of polyvinylchloride ("PVC"). This new business is expected to be launched in the fourth quarter of 2007. The sales team of the Group is expected to be further expanded and the existing sales networks then be further enhanced. The Board is optimistic about the forthcoming introduction of the PVC business.

The Board is reviewing the overall performance of the Group's businesses and actively contemplating various possible means to streamline the Group's businesses to improve its overall financial positions and may conclude its strategies in the near future. In particular, the Board is considering a proposal for the disposal of the Group's optical business.

## Liquidity and Financial Review

The Group mainly finances its day-to-day operations with internally generated cash flow. As at 30 June 2007, the current ratio of the Group, measured as total current assets to total current liabilities, was approximately 89.47%.

During the period, the Group recorded a net cash inflow generated from operations of approximately HK\$5.7 million. As at 30 June 2007, the Group recorded an aggregate amount of approximately HK\$187.7 million due to a shareholder, Probest.

The Group conducts its business transactions mainly in Hong Kong dollars, US dollars, Euros and Renminbi. The Group did not arrange any forward currency contracts for hedging purposes. Whilst most of the Group's cash is denominated in currencies directly and indirectly linked to the US dollars, the exposure to exchange fluctuation in gains and losses is minimal. The Group's promissory note and the loan due to Probest bear interest at a rate equivalent to 1% over Hong Kong prime rate per annum. The Group's borrowings are mainly denominated in Hong Kong dollars.

The gearing of the Group, measured as total debts to total assets, was approximately 95.19% as at 30 June 2007, an improvement comparing to that of approximately 103.85% as at 31 December 2006.

## SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

During the period, there were no material change on the investment held and also no material acquisition or disposal of any subsidiary and associate of the Group.

## CAPITAL COMMITMENT, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2007, the Group has total no capital commitments and an operating lease commitments amounted to approximately HK\$9.9 million compared to that of approximately HK\$3.2 million as at 31 December 2006.

As at 30 June 2007, the Group has no charge on the Group's assets.

At 30 June 2007, the Group had contingent liabilities of RMB 9,500,000 (31 December 2006: RMB 9,500,000) equivalent to approximately HK\$9,765,000 (31 December 2006: HK\$9,450,000) in relation to a provision of a guarantee issued by a subsidiary of the Group to a minority equity holder of another subsidiary of the Group regarding any potential loss that may be borne by this minority equity holder during the winding up process of the subsidiary.

## HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 30 June 2007, the Group had 1,968 employees. The Group's remuneration policy is primarily based on the individual performance and experience of employees, 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 on 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 30 June 2007, the total share option outstanding amounted to 10,000,000 shares held by an employee. No share option was exercise during the period.

## DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES

### 1. Interests in the Company

As at the Latest Practicable Date, the interests or short positions of each Director and the Company's chief executive in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV 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 (including interests and short positions which are taken or deemed to have under such provision of the SFO); or (b) were required to pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required to pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to the company and the Stock Exchange were as follows:

Directors	Nature of interest	Number of Shares	Approximate Percentage
Mr. Wang An Kang	Corporate	1,878,799,680	60.12%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company were interested, or were 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 for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange.

### 2. 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. As at 30 June 2007, the Company has no share options outstanding to any directors of the Company.

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

## SUBSTANTIAL SHAREHOLDERS

### (a) Interest in Shares of the Company

As at the Latest Practicable Date, 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	Approximate percentage of the Company's issued Share Capital
China Time Investment Holdings Limited	1,878,799,680 (note 1)	60
Mr. Wang	1,878,799,680 (note 1)	60
Ms. Mu Yucun	1,878,799,680 (note 2)	60
Choi Koon Shum, Jonathan ("Mr. Choi")	188,702,795 (note 3)	6
Kwan Wing Kum, Janice ("Ms Kwan")	188,702,795 (note 3)	6
Lam William Ka Chung ("Mr. Lam")	188,702,795 (note 3)	6
Lam Wong Yuk Sin, Mary ("Mrs. Lam")	188,702,795 (note 3)	6
Kingsway International Holdings Limited ("Kingsway International")	188,702,795 (note 3)	6
Innovation Assets Limited ("Innovation")	188,702,795 (note 3)	6
World Developments Limited ("World Developments")	188,702,795 (note 3)	6
SW Kingsway Capital Holdings Limited ("SW Kingsway")	188,702,795 (note 3)	6
Festival Developments Limited ("Festival Developments")	188,702,795 (note 3)	6

#### Notes:

1. Mr. Wang is the sole shareholder of China Time Investment Holdings Limited.
2. Ms. Mu Yucun is Mr. Wang's spouse and is deemed to be interested in Mr. Wang's interest in the Shares.
3. Mr. Choi and his spouse, Ms. Kwan, were deemed to be interested in 188,702,795 ordinary Shares in the Company by virtue of their 46% shareholding in Kingsway International. Mr. Lam and his spouse, Mrs. Lam, were deemed to be interested in 188,702,795 ordinary Shares in the Company by virtue of their 40% shareholding in Kingsway International. Kingsway International, in turn, held 100% shareholding in Innovation. Innovation, in turn, held 100% shareholding in World Developments. World Developments, in turn, held 74% shareholding in SW Kingsway. SW Kingsway, in turn, held 100% direct shareholding in Festival Developments.

Save as disclosed above, as at the Latest Practicable Date, the Directors 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 (continued)

### (b) Substantial shareholders of other members of the Group

As at the Latest Practicable Date, so far as it is known to the directors of the Company, the following parties, other than a director of the Company, 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.

Name of Subsidiary	Name of Substantial Shareholders	% of existing issued share capital
Profitown Investment Corporation	Probest Holdings Inc.	30%
Global Original Limited	All-Success International Limited	10%
Profit Trend International Limited	Wischance Investments Limited	50%
Shenzhen Henggang Swank Optical Industries Co. Ltd.	Henggang Zheng Stock Investment Co. Ltd.	19%

## 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 six months ended 30 June 2007.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2007.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for directors' securities transactions and all its directors have complied with required standard set out in the Model Code throughout the accounting period covered by the interim report.

## DIRECTORS

As at the date hereof, the Board of the Company comprises Messrs. Wang An Kang, Zhao Jun and Li Wei and Ms. Zhou Jing as Executive Directors and Messrs. Wu Bin, Tam King Ching, Kenny and Choi Tze Kit, Sammy as Independent Non-Executive Directors.

## REVIEW BY INDEPENDENT ACCOUNTANTS

The 2007 interim report is unaudited, but has been reviewed by CCIF CPA Limited, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, whose review report is included in the interim report to be sent to shareholders.



## REVIEW BY AUDIT COMMITTEE

The 2007 interim report is unaudited, but has been reviewed by the Audit Committee which comprises of three independent Non-Executive Directors of the Company. The Audit Committee 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.

By order of the Board

**Mr. Zhao Jun**

*Chairman*

Hong Kong, 24 September 2007