



Yun Sky Chemical (International) Holdings Limited

(Incorporated in Hong Kong with limited liability)

Stock Code: 663

Interim Report **2008**



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Wang An Kang (resigned on 21 July 2008)

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

AUDITOR

CCIF CPA Limited

LEGAL ADVISERS

Sidley Austin

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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3 Garden Road

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SHARE REGISTRAR

Tricor Secretaries Limited

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COMPANY WEBSITE

<http://www.equitynet.com.hk/0663/>

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE BOARD OF DIRECTORS OF YUN SKY CHEMICAL (INTERNATIONAL) HOLDINGS LIMITED

(formerly known as 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 24, which comprise the consolidated balance sheet of Yun Sky Chemical (International) Holdings Limited (formerly known as Swank International Manufacturing Co. Limited) (the "Company") as of 30 June 2008 and the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on 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.

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 does not give a true and fair view of the financial position of the entity as at 30 June 2008, and of its financial performance and its cash flows for the six-month period then ended in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

CCIF CPA Limited

Certified Public Accountants

Hong Kong, 27 August 2008

Leung Chun Wa

Practising Certificate Number P04963

The Board of Directors (the "Board") of Yun Sky Chemical (International) Holdings Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months period ended 30 June 2008. The interim financial results are prepared on the basis consistent with the accounting policies and method adopted in the Company's 2007 audited financial statements. The interim financial results have been reviewed by the Company's Audit Committee. The interim financial results are unaudited, but have also been reviewed by CCFIF 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 2008

	Notes	Continuing operations		Discontinued operation		Total	
		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
		2008	2007	2008	2007	2008	2007
		HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Turnover	(3)	576,609	100,345	–	69,574	576,609	169,919
Cost of sales		(529,678)	(65,546)	–	(58,959)	(529,678)	(124,505)
Gross profit		46,931	34,799	–	10,615	46,931	45,414
Other income		4,809	610	–	3,243	4,809	3,853
Selling and distribution costs		(21,767)	(1,780)	–	(5,366)	(21,767)	(7,146)
Administrative expenses		(12,022)	(6,827)	–	(3,493)	(12,022)	(10,320)
Other operating expenses		(109)	–	–	(1,355)	(109)	(1,355)
Impairment loss of inventories		–	–	–	(714)	–	(714)
Profit from operations	(4)	17,842	26,802	–	2,930	17,842	29,732
Finance costs		(1,509)	(22)	–	(6,762)	(1,509)	(6,784)
Share of results of associates		–	–	–	4,094	–	4,094
Profit before income tax		16,333	26,780	–	262	16,333	27,042
Income tax	(5)	(2,083)	(1,898)	–	(5)	(2,083)	(1,903)
Profit for the period		14,250	24,882	–	257	14,250	25,139
Attributable to:							
Equity holders of the Company		14,250	24,882	–	180	14,250	25,062
Minority interests		–	–	–	77	–	77
		14,250	24,882	–	257	14,250	25,139
Dividends	(6)	–	–	–	–	–	–
Earnings per share							
– Basic	(7)	0.5 cents	0.8 cents	–	0.01 cents	0.5 cents	0.8 cents
– Diluted		0.5 cents	0.8 cents	–	0.01 cents	0.5 cents	0.8 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008 and 31 December 2007

	Notes	As at	
		30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	(8)	2,536	258
Construction in progress		171	464
		2,707	722
Current assets			
Inventories		74,725	57,474
Trade receivables	(9)	97,855	47,533
Prepayments, deposits and other receivables		36,626	124,127
Amounts due from related companies	(14(c))	85,453	–
Cash and bank balances		26,870	30,342
		321,529	259,476
Total assets		324,236	260,198
EQUITY			
Share capital	(11)	31,249	31,249
Reserves		110,376	91,373
Total equity		141,625	122,622

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2008 and 31 December 2007

	Notes	As at	
		30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
LIABILITIES			
Current liabilities			
Trade payables	(10)	43,648	61,846
Accruals and other payables		49,026	34,154
Amounts due to related companies	(14(c))	87,753	39,634
Amounts due to directors	(14(d))	1,097	1,942
Tax payable		1,087	–
		182,611	137,576
Total liabilities		182,611	137,576
Total equity and liabilities		324,236	260,198
Net current assets		138,918	121,900
Total assets less current liabilities		141,625	122,622

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2008

	Attributable to shareholders of the Company					
	Issued share capital	Share premium account	Exchange fluctuation reserve	Share option reserve	Accumulated losses	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008 (audited)	31,249	723,462	7,025	104	(639,218)	122,622
Exchange adjustments on translations of foreign subsidiaries	-	-	4,745	-	-	4,745
Recognition of equity-settled share-based payment expenses	-	-	-	8	-	8
Share option written back to retained earning	-	-	-	(112)	112	-
Profit for the period	-	-	-	-	14,250	14,250
At 30 June 2008 (unaudited)	31,249	723,462	11,770	-	(624,856)	141,625

	Attributable to shareholders of the Company											
	Issued share capital	Share premium account	Exchange fluctuation reserve	Capital reserve	Special reserve	Share option reserve	Statutory reserve	Enterprise development fund	Accumulated losses	Total	Minority interests	Total equity
	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 (audited)	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 (unaudited)	31,249	723,462	10,005	8	341,800	78	1,982	2,325	(1,076,285)	34,624	(16,789)	17,835

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Net cash (used in)/generated from operations	(6,142)	5,672
Net cash (used in)/generated from investing activities	(2,075)	581
Net (decrease)/increase in cash and cash equivalents	(8,217)	6,253
Cash and cash equivalents at beginning of the period	30,342	37,395
Effect of foreign exchange rate changes	4,745	1,454
Cash and cash equivalents at end of the period	26,870	45,102
Analysis of balances of cash and cash equivalents		
Cash and bank balances	26,870	13,910
Fixed deposits with original maturity less than three months when acquires	–	31,192
	26,870	45,102

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 2007.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in the annual financial statements for the year ended 31 December 2007.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. These new and revised HKFRSs have no significant impact on the results or the financial position of the Group and the Company for current and previous accounting periods.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of phosphoric products, PVC and PVC related products for industrial use. On 30 November 2007, the Group discontinued its optical business. The directors of the Company regard the business segment as the primary reporting format because it reflects 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) PVC business: manufacture and sale of PVC and PVC related products for industrial use; and
- (iii) Optical business: design, manufacture and sale of optical products (discontinued on 30 November 2007).

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

For the six months ended 30 June 2008

Segment	Turnover			Operating profit		
	Continuing operations HK\$'000 (unaudited)	Discontinued operation HK\$'000 (unaudited)	Total HK\$'000 (unaudited)	Continuing operations HK\$'000 (unaudited)	Discontinued operation HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Phosphorus	321,431	-	321,431	23,296	-	23,296
PVC	255,178	-	255,178	(4,879)	-	(4,879)
Optical	-	-	-	-	-	-
	576,609	-	576,609	18,417	-	18,417
Unallocated						(575)
Profit from operations						17,842

2 SEGMENT INFORMATION (continued)

(a) Business segments (continued)

For the six months ended 30 June 2007

Segment	Turnover			Operating profit		
	Continuing operations HK\$'000 (unaudited)	Discontinued operation HK\$'000 (unaudited)	Total HK\$'000 (unaudited)	Continuing operations HK\$'000 (unaudited)	Discontinued operation HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Phosphorus	100,345	-	100,345	31,097	-	31,097
PVC	-	-	-	-	-	-
Optical	-	69,574	69,574	-	2,930	2,930
	<u>100,345</u>	<u>69,574</u>	<u>169,919</u>	<u>31,097</u>	<u>2,930</u>	<u>34,027</u>
Unallocated						(4,295)
Profit from operations						<u>29,732</u>

(b) Geographical segments

In determining the Group's geographical segments, turnovers 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:

	Six months ended 30 June	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Continuing operations		
Mainland PRC	466,820	98,754
East Asia	109,789	1,591
	<u>576,609</u>	<u>100,345</u>
Discontinued operation		
United States of America	-	26,720
Europe	-	27,815
Hong Kong	-	12,037
Mainland PRC	-	3
Others	-	2,999
	<u>-</u>	<u>69,574</u>

3 TURNOVER

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

4 PROFIT FROM OPERATIONS

Profit from operations is stated after charging the following:

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventory consumed	529,678	124,505
Depreciation	116	4,875
Retrenchment costs	–	1,355
Exchange losses, net	–	381

5 INCOME TAX

Hong Kong profits tax has been provided in the financial statements at the rate of 16.5% on estimated assessable profits for the period.

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

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

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Charge for the Hong Kong Profits tax		
– Provision in current period	2,083	–
Charge for the PRC enterprise income tax		
– Provision in current period	–	1,903
	2,083	1,903

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC enterprise income tax of the Group's subsidiary, 防城港華海化工有限公司 (“華海”) is 15% and no local income tax is charged. The applicable PRC enterprise income tax for the Group's subsidiary, 昆明華甸化工有限公司 (“華甸”) is 30% and the local income tax is 3%. The subsidiaries are granted certain tax relief, under which they are exempted from the PRC enterprise income tax for the first two profit making years and entitled to an income tax reduction of half for the next three years with full exemption from local income tax. The first profit making of 華海 and 華甸 was 2006 and 2007 respectively. Accordingly 華海 was entitled to an income tax reduction of 7.5% from the PRC enterprise income tax during the period ended 30 June 2008. However, 華海 incurred a taxation loss for the period. 華甸 was entitled to full exemption from the PRC enterprise income tax and local income tax during the period ended 30 June 2008.

6 DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

7. EARNINGS PER SHARE

	Six months ended 30 June	
	2008	2007
For continuing and discontinued operations		
Profit attributable to equity holders of the Company (HK\$'000)	14,250	25,062
Weighted average number of ordinary shares ('000)	3,124,863	3,124,863
Basic earnings per share (HK cents)	0.5	0.8
Continuing operations		
Profit attributable to equity holders of the Company (HK\$'000)	14,250	24,882
Weighted average number of ordinary shares ('000)	3,124,863	3,124,863
Basic earnings per share (HK cents)	0.5	0.8
Discontinued operation		
Profit attributable to equity holders of the Company (HK\$'000)	–	180
Weighted average number of ordinary shares ('000)	–	3,124,863
Basic earnings per share (HK cents)	–	0.01

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

The diluted earnings per share is based on 3,130,905,850 (2007: 3,134,862,734) shares which is the weighted average number of shares during the period adjusted for the number of dilutive potential shares issued under the share option scheme.

8 PROPERTY, PLANT AND EQUIPMENT

	As at	
	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Cost		
At the beginning of the period/year	313	231,296
Additions	2,394	1,166
Write off	-	(89)
Disposals of subsidiaries	-	(232,060)
At the end of the period/year	2,707	313
Depreciation		
At the beginning of the period/year	55	176,471
Provided for the period/year	116	8,914
Write off	-	(84)
Written back on disposals of subsidiaries	-	(185,246)
At the end of the period/year	171	55
Net book value	2,536	258

9 TRADE RECEIVABLES

The normal credit period granted by the Group to customers ranges from 30 days to 180 days.

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

	As at	
	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Current to 30 days	93,807	46,745
31 to 60 days	2,415	784
61 to 90 days	116	4
More than 90 days	1,517	-
	97,855	47,533

10 TRADE PAYABLES

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

	As at	
	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Current to 30 days	16,517	30,082
31 to 60 days	6,251	18,165
61 to 90 days	7,845	557
More than 90 days	13,035	13,042
	<u>43,648</u>	<u>61,846</u>

11 SHARE CAPITAL

	As at	
	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
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 ordinary shares of HK\$0.01 each	31,249	31,249

12 SHARE OPTION SCHEME

The following table shows the movement of the Company's share options during the six months ended 30 June 2008.

Employee

Date of share options granted	Outstanding at the beginning of the period	Granted during the period	Waived by share option holder 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

13 COMMITMENTS

(a) Operating lease commitments

	As at	
	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Minimum lease payments paid under operating leases		
– Within one year	96,819	105,886
– In the second to the fifth year inclusive	1,335	82,282
	98,154	188,168

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

(b) Capital commitment

	As at	
	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Contracted but not provided for:		
Construction of plant and machinery	-	1,673

14 RELATED PARTY TRANSACTIONS

During the period ended 30 June 2007 and 2008, the directors are of the view that the following companies are related parties to the Group:

Name of the related party	Relationship
Rightlink Trading Limited Yunnan Phosphorus Group Co., Ltd ("Yunphos")	A director, Wang An Kang ("Mr. Wang") has beneficial interest Wang An Kang and Zhao Jun ("Mr. Zhao") have beneficial interests
昆明東磷貿易有限公司	A subsidiary of Yunphos Group
尋甸南鋒煤業有限公司	A subsidiary of Yunphos Group
雲南南磷集團尋甸磷電有限公司	A subsidiary of Yunphos Group
雲南南磷集團電化有限公司	A subsidiary of Yunphos Group
雲南南磷集團進出口有限公司	A subsidiary of Yunphos Group
嵩明南西磷化工有限公司	A subsidiary of Yunphos Group
雲南南磷集團陸良磷化工有限公司	A subsidiary of Yunphos Group
防城港南磷磷化工有限公司	A subsidiary of Yunphos Group
羅平磷化工有限公司	A subsidiary of Yunphos Group
雲南南磷集團銷售有限公司	A subsidiary of Yunphos Group
Probest Holdings Inc ("Probest")	A major shareholder of the Company's subsidiary which is disposed in 2007

Mr Wang and Mr Zhao are the executive directors of the Company and the key management of the Group during the six months ended 30 June 2008.

14 RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions

	Note	Six months ended 30 June	
		2008 HK\$'000	2007 HK\$'000
雲南磷集團尋甸磷電有限公司			
– rental of phosphorus premises and machinery and equipment	14(a)(iii)	11,062	10,064
– purchase of PVC ancillary materials	14(a)(vi)	717	–
– purchases of raw materials	14(a)(ii)	–	25,150
雲南磷集團電化有限公司			
– rental of PVC premises machinery and equipment	14(a)(v)	41,475	–
尋甸南鋒煤業有限公司			
– purchases of coal	14(a)(vii)	8,788	–
昆明東磷貿易有限公司			
– purchase of phosphorus ancillary materials	14(a)(ix)	3,648	–
– purchase of PVC ancillary materials	14(a)(vi)	10,023	–
防城港南磷磷化工有限公司			
– sales of phosphorus products	14(a)(i)	3,564	–
– purchase of phosphorus ancillary materials	14(a)(ix)	5	–
– rental of phosphorus premises, machinery and equipment	14(a)(iv)	1,383	1,258
雲南磷集團進出口有限公司			
– sales of phosphorus products	14(a)(i)	63,161	78,675
– sales of PVC products	14(a)(viii)	74,666	–
嵩明南西磷化工有限公司			
– purchases of raw materials	14(a)(ii)	105,914	–
雲南磷集團陸良磷化工有限公司			
– purchases of raw materials	14(a)(ii)	9,107	5,581
羅平磷化工有限公司			
– purchase of raw materials	14(a)(ii)	70,679	–
Rightlink Trading Limited			
– commission income		–	479

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.

14 RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions (continued)

(i) Guangxi Distribution Agreement

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

In accordance with the Guangxi Distribution Agreement, sales of phosphoric acid products to 雲南南磷集團進出口有限公司 and 防城港南磷磷化工有限公司 amounted to RMB 60,329,904 (approximately HK\$66,724,874) for the six months period ended 30 June 2008 (2007: RMB 71,134,720 (approximately HK\$78,675,000)).

(ii) Guangxi Raw Materials Purchase Agreement

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

In accordance with the Guangxi Raw Materials Purchase Agreement, purchases from 嵩明南西磷化工有限公司, 羅平磷化工有限公司 and 雲南南磷集團陸良磷化工有限公司 amounted to RMB167,902,329 (approximately HK\$185,699,976) for the six months period ended 30 June 2008 (2007: RMB30,634,791 (approximately HK\$30,730,854)).

14 RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions (continued)

(iii) Yunnan Leasing Agreement

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

In accordance with the Yunnan Leasing Agreement, rental paid and payable for Yunnan Premises and the Yunnan Machinery and Equipment to 雲南南磷集團尋甸磷電有限公司 amounted to RMB10,000,000 (approximately HK\$11,062,000) for the six months period ended 30 June 2008 (2007: RMB10,000,000 (approximately HK\$10,064,000)).

(iv) Guangxi Leasing Agreement

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

14 RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions (continued)

(iv) Guangxi Leasing Agreement (continued)

In accordance with the Guangxi Leasing Agreement, rental paid and payable to 防城港南磷磷化工有限公司 for the six months period ended 30 June 2008 amounted to RMB1,250,000 (approximately HK\$1,382,500) (2007: RMB1,250,000 (approximately HK\$1,258,000)).

(v) PVC Leasing Agreement

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

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

In accordance with the PVC Leasing Agreement, rental paid and payable under the PVC Leasing Agreement for the six months period ended 30 June 2008 to 雲南南磷集團電化有限公司 amounted to RMB37,500,000 (approximately HK\$41,475,000) (2007: Nil).

14 RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions (continued)

(vi) PVC Ancillary Materials Procurement Agreement

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

In accordance with the purchase PVC Ancillary Materials Procurement Agreement, purchase from 雲南南磷集團尋甸磷電有限公司 and 昆明東磷貿易有限公司 amounted to RMB9,711,293 (approximately HK\$ 10,740,690) for the six months period ended 30 June 2008 (2007: Nil).

(vii) Yunnan Factories Coal Supply Contract

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

Under the Yunnan Factories Coal Supply Contract, purchases of coal from 尋甸南鋒煤業有限公司 amounted to RMB7,946,102 (approximately HK\$8,788,389) for the six months period ended 30 June 2008 (2007: Nil).

14 RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions (continued)

(viii) PVC Distribution Agreement

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

In accordance with the PVC Distribution Agreement, sales of sodium tripolyphosphate to 雲南南磷集團進出口有限公司 for the six months period ended 30 June 2008 amounted to RMB67,509,581 (approximately HK\$74,665,597) (2007: Nil).

(ix) Phosphorous Ancillary Materials procurement Agreement

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

In accordance with the Phosphorous Ancillary Materials Procurement Agreement, purchases of phosphorous ancillary materials from 昆明東磷貿易有限公司 and 防城港南磷磷化工有限公司 amounted to RMB3,302,572 (approximately HK\$3,652,645) for the six months period ended 30 June 2008 (2007: Nil).

14 RELATED PARTY TRANSACTIONS (continued)

(b) Non-recurring transactions

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Probest Holdings Inc		
– interest expenses	–	6,762

(c) Balances with related companies

	As at	
	30 June	31 December
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Amounts due from related companies:		
Trade balances:		
雲南南磷集團進出口有限公司	82,997	–
雲南南磷集團銷售有限公司	2,456	–
	85,453	–
Amounts due to related companies:		
Trade balances:		
Yunphos	–	21,753
雲南南磷集團陸良磷化工有限公司	3,327	–
羅平磷化工有限公司	71,619	–
嵩明南西磷化工有限公司	1,776	–
防城港南磷磷化工有限公司	4,620	–
尋甸南鋒煤業有限公司	157	–
雲南南磷集團尋甸磷電有限公司	11	–
Rightlink Trading Limited	6,243	17,881
	87,753	39,634

The amounts due from/to related companies are trading in nature, unsecured, interest free and repayable on demand.

Further to an undertaking from Yunphos to the Company, as long as the amount due from Yunphos Group of RMB75,031,046 (equivalent to HK\$85,452,858) as at 30 June 2008 remains outstanding, the Company may delay payments to Yunphos Group and the Group payable to Yunphos Group can be waived in case of any default payments by Yunphos Group by the same amount. As at 30 June 2008, the Group owed to Yunphos Group in the amount of RMB71,567,763 (equivalent to HK\$81,508,525).

14 RELATED PARTY TRANSACTIONS (continued)

(d) Amounts due to directors

	As at	
	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Wang An Kang (resigned on 21 July 2008)	9	769
Zhao Jun	872	673
Zhou Jing	216	500
	1,097	1,942

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

15 ULTIMATE HOLDING COMPANY

The directors regard Sinogreat 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 2008 (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

The Group enters into its third year of the production and sales of phosphorus products and second year of the production and sales of PVC and related products in 2008. On 30 November 2007, the Group has discontinued its optical business by disposing all its 70% equity interest in its optical business subsidiaries. Further details of such disposal is described in the Group's 2007 annual report.

During the six months period ended 30 June 2008, the Group encountered several challenges which affected both its production and profitability. They were:

1. substantial increase in raw material prices and energy costs;
2. shortage in supplies of raw materials; and
3. two major natural disasters in the PRC taken place in January and May 2008.

The Group recorded a total sales of approximately HK\$576.6 million for the period (compared with HK\$100.3 million in the corresponding period in 2007). The increase in sales was mainly due to the introduction of PVC and related products of approximately HK\$255.2 million and the successful enlargement of customer base of yellow phosphorus business during the twelve months period ended 30 June 2008. However, as the Group experienced difficulties to increase its selling prices of its products, particularly the PVC and PVC related products and phosphoric acid in line with the increase of their costs of production (particularly raw material and energy costs), gross profit margins of these products were reduced as compared with 2007. In addition, gross profit and gross profit margin is also adversely affected by some disruptions in productions due to several natural disasters taken place in the PRC. Overall gross profit and gross profit margin for the current period was approximately HK\$46.9 million and 8.1% respectively (compared with HK\$45.4 million and 26.7% for the same period last year).

Selling expenses has also substantially increased to approximately HK\$21.8 million in the current period compared with HK\$7.1 million for the same period last year despite the effect on discontinued optical business. This is due to:

1. the substantial increase in global oil prices affecting the costs of freight and transportation costs; and
2. the newly introduced PVC business and the expansion of yellow phosphorus business resulting in an expansion in sales and sales network.

Finance costs of approximately HK\$1.5 million mainly represents discount fees charged from banks when bills were presented for discounting purposes. Net profit after taxation attributable to equity holders was approximately HK\$14.3 million for the current period compared with HK\$25.1 million for the same period recorded during 2007.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Results and Business Review (continued)

As at 30 June 2008, there were amounts due from and due to related parties of approximately HK\$85.4m and HK\$87.7m respectively. These amounts are trade in nature predominantly with Yunphos Group (companies controlled by Mr Wang An Kang-the Company's retired director). Yunphos Group has undertaken to the Company that (i) as long as the amounts due from Yunphos Group's companies remain outstanding, the Group may delay payments to Yunphos Group's companies and (ii) the Group's payable to Yunphos Group's companies can be waived in case of any default payments by Yunphos Group companies by the same amount.

Future Outlook

Facing the current economic conditions, the Board expects that the performance of the Group will be challenging in future. The Group will continue closely monitor the latest developments of the chemical sector and optimize its product mix. The Board has also initiated and commenced a review of 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.

Liquidity and Financial Review

The Group mainly finances its day-to-day operations with internally generated cash flow. As at 30 June 2008, the current ratio of the Group, measured as total current assets to total current liabilities, was approximately 176.07% (compared with 188.61% as at 31 December 2007) and the Group has no long term liability as at 30 June 2008.

During the period, the Group recorded a net cash used in operations of approximately HK\$6.14 million.

The gearing of the Group, measured as total debts to total assets, was approximately 56.32% as at 30 June 2008, comparing to that of approximately 52.87% as at 31 December 2007.

During the current period, the Group conducts its business transactions predominately in Chinese Renminbi and to a lesser extent US dollars. The Board is of the view that there were no material currency mismatch in assets and liabilities hence minimise exchange risks. The Group did not arrange any forward currency contracts for hedging purposes.

CHANGE OF MAJOR SHAREHOLDER

In June 2008, upon the completion of an unconditional mandatory general offer by Sinogreat Limited ("Sinogreat"), Sinogreat and parties acting in concert with it held 1,831,666,948 shares of the Company representing approximately 58.61% of the issued share capital and the entire voting rights of the Company.

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 2008, the Group has total no capital commitments compared with a capital commitment of approximately HK\$1.67 million at 31 December 2007. The Group has an operating lease commitments amounted to approximately HK\$98.15 million compared to that of approximately HK\$188.17 million as at 31 December 2007.

As at 30 June 2008, the Group has no charge on the Group's assets.

As at 30 June 2008, the Group had no material contingent liabilities (31 December 2007: Nil).

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 30 June 2008, the Group had 1,170 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 2008, there were no outstanding share option held by any employee. No share option was exercised and 10,000,000 share options previously held by an employee were waived by the employee and cancelled during the period.

DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES

1. Interests in the Company

As at the date of this interim report, 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 the date of this interim report, the Company has no share options outstanding to any directors of the Company.

SUBSTANTIAL SHAREHOLDERS

(a) Interest in Shares of the Company

As at the date of this interim report, 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
Mr. Chan Yuen Ming ("Mr. Chan")	1,831,666,948 (note 1)	58.61
Sinogreat Limited	1,675,464,158 (note 1)	53.61
China Time Investment Holdings Limited	208,324,182 (note 2)	6.67
Mr. Wang	208,324,182 (note 2)	6.67
Ms. Mu Yucun	208,324,182 (note 3)	6.67
Choi Koon Shum, Jonathan ("Mr. Choi")	188,702,795 (note 4)	6.04
Kwan Wing Kum, Janice ("Ms Kwan")	188,702,795 (note 4)	6.04
Lam William Ka Chung ("Mr. Lam")	188,702,795 (note 4)	6.04
Lam Wong Yuk Sin, Mary ("Mrs. Lam")	188,702,795 (note 4)	6.04
Kingsway International Holdings Limited ("Kingsway International")	188,702,795 (note 4)	6.04
Innovation Assets Limited ("Innovation")	188,702,795 (note 4)	6.04
World Developments Limited ("World Developments")	188,702,795 (note 4)	6.04
SW Kingsway Capital Holdings Limited ("SW Kingsway")	188,702,795 (note 4)	6.04
Festival Developments Limited ("Festival Developments")	188,702,795 (note 4)	6.04

Notes:

1. Mr. Chan is the sole shareholder of Sinogreat Limited, which owns 1,675,464,158 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 156,202,790 Shares.
2. Mr. Wang is the sole shareholder of China Time Investment Holdings Limited.
3. Ms. Mu Yucun is Mr. Wang's spouse and is deemed to be interested in Mr. Wang's interest in the Shares.
4. 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.

SUBSTANTIAL SHAREHOLDERS (continued)

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

Notes: (continued)

Save as disclosed above, as at the date of this interim report, 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.

(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, there no 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.

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 2008.

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 2008.

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. 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 AUDITOR

The 2008 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 2008 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.

On behalf of the Board

Mr. Zhao Jun

Chairman

Hong Kong, 27 August 2008