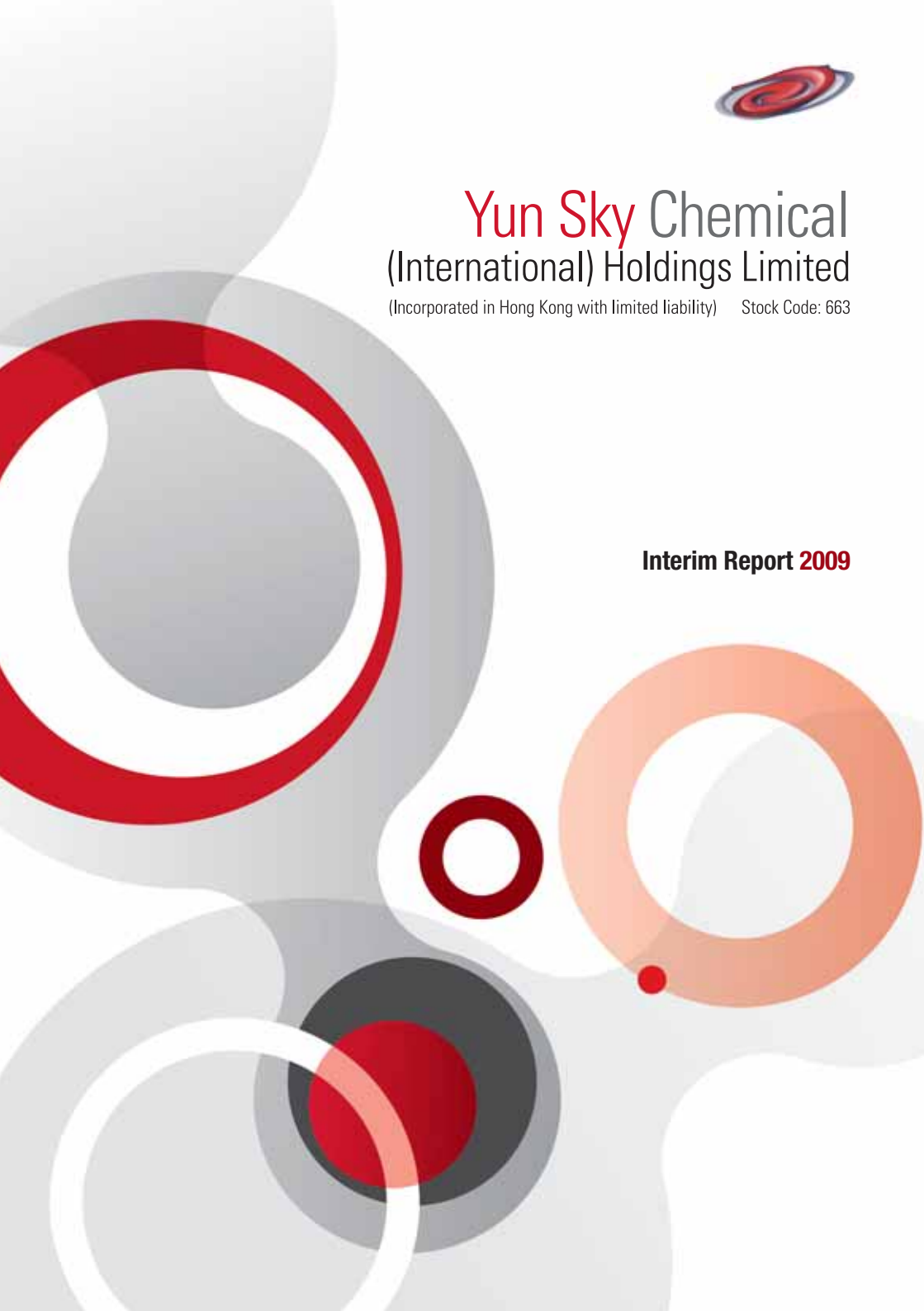




# Yun Sky Chemical (International) Holdings Limited

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

**Interim Report 2009**



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors:

Liu Yee Nee (Chairman)  
Wang Da Yong (C.E.O.)  
(appointed on 1 July 2009)  
Li Wei (C.E.O.)  
Louie Mei Po  
Zhou Jing

#### Independent Non-Executive Directors:

Ng Wai Hung  
Wu Wang Li  
Jacobsen William Keith

### AUDIT COMMITTEE

Ng Wai Hung  
Wu Wang Li  
Jacobsen William Keith

### REMUNERATION COMMITTEE

Liu Yee Nee  
Li Wei  
Ng Wai Hung  
Wu Wang Li  
Jacobsen William Keith

### AUTHORISED REPRESENTATIVES

Liu Yee Nee  
Louie Mei Po

### QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Law Pik Kam Peggy

### AUDITOR

CCIF CPA Limited

### REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1211, 12/F., Tower 1  
New World Tower  
18 Queen's Road Central  
Hong Kong

### SHARE REGISTRAR

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

### COMPANY WEBSITE

<http://www.yun-sky.com>

The Board of Directors (the "Board") of Yun Sky Chemical (International) Holdings Limited (the "Company") presents the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months period ended 30 June 2009 with comparative figures as follows.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	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	
		2009	2008	2009	2008	2009	2008
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Turnover	(4)	40,064	321,431	–	255,178	40,064	576,609
Cost of sales		(39,189)	(285,682)	–	(243,996)	(39,189)	(529,678)
Gross profit		875	35,749	–	11,182	875	46,931
Other income		597	4,809	–	–	597	4,809
Gain on disposal of a subsidiary		8,625	–	–	–	8,625	–
Selling and distribution costs		(1,922)	(11,443)	–	(10,324)	(1,922)	(21,767)
Administrative expenses		(8,903)	(6,285)	–	(5,737)	(8,903)	(12,022)
Other operating expenses		–	(109)	–	–	–	(109)
Profit/(loss) from operations		(728)	22,721	–	(4,879)	(728)	17,842
Finance costs		(43)	(1,509)	–	–	(43)	(1,509)
Profit/(loss) before income tax	(5)	(771)	21,212	–	(4,879)	(771)	16,333
Income tax	(6)	–	(1,666)	–	(417)	–	(2,083)
Profit/(loss) for the period attributable to owners of the Company		(771)	19,546	–	(5,296)	(771)	14,250
Other comprehensive income/(loss)							
Exchange differences arising on translation of foreign operations		(44)	4,327	–	418	(44)	4,745
Other comprehensive income/(loss) for the period, net of tax		(44)	4,327	–	418	(44)	4,745
Total comprehensive income/(loss) for the period attributable to owners of the Company		(815)	23,873	–	(4,878)	(815)	18,995
Earnings/(loss) per share	(7)						
Basic		(0.02) cents	0.63 cents	–	(0.17) cents	(0.02) cents	0.46 cents
Diluted		N/A	0.63 cents	–	(0.17) cents	N/A	0.46 cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009 and 31 December 2008

	Notes	As at	
		30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	(8)	81	2,441
<b>Current assets</b>			
Inventories		573	26,387
Trade receivables	(9)	17,378	15,248
Prepayments, deposits and other receivables		23,117	31,407
Amounts due from related companies	(15(b))	–	30,151
Tax recoverable		–	994
Cash and bank balances		82,817	84,435
		<u>123,885</u>	<u>188,622</u>
<b>Total assets</b>		<u>123,966</u>	<u>191,063</u>
<b>EQUITY</b>			
Share capital	(11)	32,097	31,249
Reserves		18,261	20,806
<b>Total equity</b>		<u>50,358</u>	<u>52,055</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2009 and 31 December 2008

	Notes	As at	
		30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	(10)	22,536	31,542
Accruals and other payables		5,304	12,920
Amounts due to related companies	(15(b))	45,768	94,546
		<u>73,608</u>	<u>139,008</u>
<b>Total liabilities</b>		<u>73,608</u>	<u>139,008</u>
<b>Total equity and liabilities</b>		<u>123,966</u>	<u>191,063</u>
<b>Net current assets</b>		<u>50,277</u>	<u>49,614</u>
<b>Total assets less current liabilities</b>		<u>50,358</u>	<u>52,055</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009 (unaudited)

	Attributable to owners of the Company						Total equity
	Issued share capital	Share premium account	Statutory surplus reserve	Exchange fluctuation reserve	Share option reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	31,249	723,462	7,904	13,717	764	(725,041)	52,055
Total comprehensive income for the period	-	-	-	(44)	-	(771)	(815)
Issue of shares	848	7,145	-	-	-	-	7,993
Disposal of a subsidiary	-	-	(1,982)	(6,893)	-	-	(8,875)
At 30 June 2009	<u>32,097</u>	<u>730,607</u>	<u>5,922</u>	<u>6,780</u>	<u>764</u>	<u>(725,812)</u>	<u>50,358</u>

For the six months ended 30 June 2008 (unaudited)

	Attributable to owners of the Company						Total equity
	Issued share capital	Share premium account	Exchange fluctuation reserve	Share option reserve	Accumulated losses		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008		31,249	723,462	7,025	104	(639,218)	122,622
Total comprehensive income for the period		-	-	4,745	-	14,250	18,995
Recognition of equity-settled share-based payment expenses		-	-	-	8	-	8
Share option written back to retained earning		-	-	-	(112)	112	-
At 30 June 2008		<u>31,249</u>	<u>723,462</u>	<u>11,770</u>	<u>-</u>	<u>(624,856)</u>	<u>141,625</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Net cash used in operations	(37,463)	(6,142)
Net cash generated from/(used in) investing activities	27,939	(2,075)
Net cash generated from financing activities	7,950	—
<b>Net decrease in cash and cash equivalents</b>	<b>(1,574)</b>	<b>(8,217)</b>
Cash and cash equivalents at beginning of the period	84,435	30,342
Effect of foreign exchange rate changes	(44)	4,745
<b>Cash and cash equivalents at end of the period</b>	<b>82,817</b>	<b>26,870</b>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	82,817	26,870

## **NOTES TO CONDENSED FINANCIAL STATEMENTS**

### **1 BASIS OF PREPARATION**

The interim condensed consolidated financial statements for the six months ended 30 June 2009 are unaudited but have been reviewed by the Audit Committee.

The interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s 2008 annual financial statements.

The accounting policies and method of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2008 except as stated in note 2 below.

### **2 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years except as stated below.

#### **Presentation of Financial Statements**

HKAS 1 (Revised) “Presentation of Financial Statements” affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. These presentation requirements have been applied retrospectively in these condensed financial statements.



## **2 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)**

### **Operating Segments**

HKFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 “Segment Reporting” required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity’s ‘system of internal financial reporting to key management personnel’ serving as the starting point for the identification of such segments. HKFRS 8 results in a redesignation of the Group’s reportable segments, but has had no impact on the reported results or financial position of the Group. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in note 3 to the condensed financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

## **3 SEGMENT INFORMATION**

The Group’s reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in the Group’s financial statements for the year ended 31 December 2008.

The Group is principally engaged in the manufacture and sale of phosphorous products and trading of optical products. During the year ended 31 December 2008, the Group discontinued its business of manufacturing and sale of PVC products.

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.

### 3 SEGMENT INFORMATION (continued)

The Group comprises the following main reportable segments:

- (i) Phosphorus products: manufacture and sale of phosphoric products;
- (ii) Optical trading: trading of optical products; and
- (iii) PVC products: manufacture and sale of PVC products (discontinued during the year ended 31 December 2008).

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

*For the six months ended 30 June 2009*

Segment	Turnover			Operating profit/(loss)		
	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 products	8,388	–	8,388	(8,417)	–	(8,417)
Optical trading	31,676	–	31,676	(84)	–	(84)
	<u>40,064</u>	<u>–</u>	<u>40,064</u>	<u>(8,501)</u>	<u>–</u>	<u>(8,501)</u>
Unallocated						<u>7,730</u>
<b>Loss from operations</b>						<u>(771)</u>

### 3 SEGMENT INFORMATION (continued)

For the six months ended 30 June 2008

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

### 3 SEGMENT INFORMATION (continued)

#### 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	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
<b>Continuing operations</b>		
Mainland PRC	825	214,620
East Asia	39,239	106,811
	<u>40,064</u>	<u>321,431</u>

	Six months ended 30 June	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
<b>Discontinued operation</b>		
Mainland PRC	–	252,200
East Asia	–	2,978
	<u>–</u>	<u>255,178</u>

#### 4 TURNOVER

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

#### 5 PROFIT/LOSS BEFORE INCOME TAX

Profit/loss before income tax is stated after charging the following:

	2009	Six months ended 30 June		
		2008		
	HK\$'000 (unaudited)	Continuing operations HK\$'000 (unaudited)	Discontinued operation HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Cost of inventories sold	39,189	285,682	243,996	529,678
Depreciation	160	116	–	116

#### 6 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. No provision for Hong Kong profits tax for the six months ended 30 June 2009 as the Group did not generate any assessable profits arising in Hong Kong during the period.

No provision for PRC enterprise income tax for the six months ended 30 June 2009 as the subsidiaries of the Group located in the PRC sustained tax loss for the period.

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

	2009	Six months ended 30 June		
		2008		
	HK\$'000 (unaudited)	Continuing operations HK\$'000 (unaudited)	Discontinued operation HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Charge for the Hong Kong profits tax				
– Provision in current period	–	1,666	417	2,083

## 7 EARNINGS/(LOSS) PER SHARE

	Six months ended 30 June	
	2009	2008
<b>For continuing and discontinued operations</b>		
Profit/(loss) attributable to equity holders of the Company (HK\$'000)	(771)	14,250
Weighted average number of ordinary shares ('000)	3,192,861	3,124,863
Basic earnings/(loss) per share (HK cents)	<u>(0.02)</u>	<u>0.46</u>
<b>Continuing operations</b>		
Profit/(loss) attributable to equity holders of the Company (HK\$'000)	(771)	19,546
Weighted average number of ordinary shares ('000)	3,192,861	3,124,863
Basic earnings/(loss) per share (HK cents)	<u>(0.02)</u>	<u>0.63</u>
<b>Discontinued operation</b>		
Loss attributable to equity holders of the Company (HK\$'000)	–	(5,296)
Weighted average number of ordinary shares ('000)	–	3,124,863
Basic loss per share (HK cents)	<u>–</u>	<u>(0.17)</u>

The basic earnings/(loss) per share is based on the weighted average number of shares of 3,192,861,034 (2008: 3,124,862,734) for the period.

The diluted loss per share for the six months ended 30 June 2009 was not presented as the exercise of share options would result in a decrease in loss per share.

The diluted earnings per share for the six months ended 30 June 2008 is based on 3,130,905,850 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 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Cost		
At the beginning of the period/year	2,798	313
Exchange adjustments	–	9
Additions	5	1,176
Transferred from construction in progress	–	1,310
Disposals	–	(10)
Disposal of a subsidiary	(2,639)	–
	<hr/>	<hr/>
At the end of the period/year	164	2,798
Accumulated depreciation		
At the beginning of the period/year	357	55
Exchange adjustments	–	8
Provided for the period/year	160	297
Written back on disposal	–	(3)
Written back on disposal of a subsidiary	(434)	–
	<hr/>	<hr/>
At the end of the period/year	83	357
Net book value	<hr/> <u>81</u>	<hr/> <u>2,441</u>

## 9 TRADE RECEIVABLES

The normal credit period granted by the Group to customers ranges from 30 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 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Current to 30 days	11,879	191
31 to 60 days	–	302
61 to 90 days	–	4,861
More than 90 days	5,499	9,894
	<u>17,378</u>	<u>15,248</u>

## 10 TRADE PAYABLES

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

	As at	
	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Current to 30 days	13,325	4,754
31 to 60 days	–	10,320
61 to 90 days	85	5,279
More than 90 days	9,126	11,189
	<u>22,536</u>	<u>31,542</u>



## 11 SHARE CAPITAL

	As at	
	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Authorised:		
300,000,000,000 ordinary shares of HK\$0.01 each	<u>3,000,000</u>	<u>3,000,000</u>
Issued and fully paid:		
3,209,743,370 (2008: 3,124,862,734) ordinary shares of HK\$0.01 each	<u>32,097</u>	<u>31,249</u>

## 12 SHARE OPTION SCHEME

The following table shows the movement of the Company's share options during the six months ended 30 June 2009.

### 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
29/8/2008	12,320,000	-	-	12,320,000	0.125	29/9/2008 – 28/9/2013

## 13 OPERATING LEASE COMMITMENTS

	As at	
	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Minimum lease payments paid under operating leases		
– Within one year	1,442	1,581
– In the second to the fifth year inclusive	<u>-</u>	<u>639</u>
	<u>1,442</u>	<u>2,220</u>

The Group leases certain of its office premises under the operating lease arrangements.

## 14 DISPOSAL OF A SUBSIDIARY

	HK\$'000 (unaudited)
Net assets disposed of:	
Property, plant and equipment	2,205
Inventories	11,548
Prepayment, deposits and other receivables	22,019
Amounts due from related companies	8,959
Bank and cash balances	1,776
Trade payables	(15,746)
Accruals and other payables	(840)
Amounts due to related companies	<u>(179)</u>
Net assets disposed of	29,742
Statutory surplus reserve released	(1,982)
Exchange fluctuation reserve released	<u>(6,893)</u>
	20,867
Gain on disposal	<u>8,625</u>
	<u>29,492</u>
Consideration satisfied by:	
Cash consideration	<u>29,492</u>
Net cash flow arising on disposal:	
Proceeds from disposal	29,492
Bank and cash balances disposed of	<u>(1,776)</u>
	<u>27,716</u>

The disposed subsidiary contributed a loss of HK\$2.1 million to the Group from operating activities during the period.

## 15 RELATED PARTY TRANSACTIONS

During the period ended 30 June 2009 and 2008, the directors are of the view that the following companies are related parties to the Group:

<b>Name of the related party</b>	<b>Relationship</b>
Rightlink Trading Limited	A director, Wang An Kang (note (i)) has beneficial interest
Yunnan Phosphorus Group Co., Ltd (“Yunphos”)	Wang An Kang and Zhao Jun (note (i) and (ii)) 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
Dongguan Hamwell Glasses Co. Ltd. (“Dongguan Hamwell”)	Liu Yee Nee (note (iii)) was the legal representative, ceased in April 2009
Swank International Optical Company Limited (“Swank International”)	Liu Yee Nee and Louie Mei Po (note (iii) and (iv)) were the common directors, and resigned in June 2009

## 15 RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) Mr. Wang An Kang was the Company's executive director and the key management of the Company during the period ended 30 June 2008. He has resigned as executive director of the Company on 21 July 2008 but continue to act as the position of key management of certain Group's subsidiaries.
- (ii) Mr. Zhao Jun was the chairman and the executive director of the Company and the key management of the Group during the period ended 30 June 2008. He resigned as the chairman and the executive director of the Company on 26 September 2008 but continued to act as the management of certain Group's subsidiaries.
- (iii) Ms. Liu Yee Nee ("Ms. Liu") has been appointed as chairman and executive director of the Company since 26 September 2008. Ms. Liu resigned as legal representative of Dongguan Hamwell on 15 December 2008 and the application of Ms. Liu's resignation as legal representative to the PRC authority was completed in April 2009 and Dongguan Hamwell was then ceased to be a related party of the Group.
- (iv) Ms. Louie Mei Po has been appointed as executive director of the Company since 26 September 2008. Ms. Louie Mei Po and Ms. Liu resigned as director of Swank International on 22 June 2009 and was then ceased to be a related party of the Group.

## 15 RELATED PARTY TRANSACTIONS (continued)

### (a) Recurring transactions

During the periods ended 30 June 2009 and 2008, the Group had the following related party transactions.

	Note	Six months ended 30 June	
		2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
雲南南磷集團尋甸磷電有限公司			
– rental of phosphorus premises and machinery and equipment	15(a)(iii)	–	11,062
– purchase of PVC ancillary materials	15(a)(vi)	–	717
– purchases of raw materials	15(a)(ii)	–	–
雲南南磷集團電化有限公司			
– rental of PVC premises machinery and equipment	15(a)(v)	–	41,475
尋甸南鋒煤業有限公司			
– purchases of coal	15(a)(vii)	–	8,788
昆明東磷貿易有限公司			
– purchase of phosphorus ancillary materials	15(a)(ix)	–	3,648
– purchase of PVC ancillary materials	15(a)(vi)	–	10,023
防城港南磷磷化工有限公司			
– sales of phosphorus products	15(a)(i)	–	3,564
– purchase of phosphorus ancillary materials	15(a)(ix)	–	5
– rental of phosphorus premises, machinery and equipment	15(a)(iv)	–	1,383
雲南南磷集團進出口有限公司			
– sales of phosphorus products	15(a)(i)	–	63,161
– sales of PVC products	15(a)(viii)	–	74,666
嵩明南西磷化工有限公司			
– purchases of raw materials	15(a)(ii)	–	105,914
雲南南磷集團陸良磷化工有限公司			
– purchases of raw materials	15(a)(ii)	–	9,107
羅平磷化工有限公司			
– purchase of raw materials	15(a)(ii)	–	70,679
Dongguan Hamwell			
– purchase of optical products	15(a)(x)	21,519	–
Swank International			
– sale of optical products	15(a)(xi)	31,676	–

## 15 RELATED PARTY TRANSACTIONS (continued)

### (a) Recurring transactions (continued)

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.

#### (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.

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

#### (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 Haihai 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.

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

## 15 RELATED PARTY TRANSACTIONS (continued)

### (a) Recurring transactions (continued)

#### (iii) *Yunnan Leasing Agreement*

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

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

## 15 RELATED PARTY TRANSACTIONS (continued)

### (a) Recurring transactions (continued)

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

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



## 15 RELATED PARTY TRANSACTIONS (continued)

### (a) Recurring transactions (continued)

#### (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.

## 15 RELATED PARTY TRANSACTIONS (continued)

### (a) Recurring transactions (continued)

#### (v) *PVC Leasing Agreement (continued)*

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

#### (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, there was no 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 for the six months period ended 30 June 2009 (2008: RMB9,711,000 (approximately HK\$10,740,000)).

## 15 RELATED PARTY TRANSACTIONS (continued)

### (a) Recurring transactions (continued)

#### (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.

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

## 15 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 2009. 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, there were no 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 2009 (2008: RMB67,510,000 (approximately HK\$74,666,000)).

## 15 RELATED PARTY TRANSACTIONS (continued)

### (a) Recurring transactions (continued)

#### (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.

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

(x) From January 2009 to April 2009, the Group had purchases of optical products from Dougguan Hanwell of HK\$21,519,000 (2008: Nil). The purchases were priced on terms agreed between the Group and the related party.

(xi) During the six months ended 30 June 2009, the Group had sales of optical products to Swank International of HK\$31,676,000 (2008: Nil). The sales were priced on terms agreed between the Group and the related party.

## 15 RELATED PARTY TRANSACTIONS (continued)

### (b) Balances with related companies

	As at	
	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Amounts due from related companies:		
Trade balances:		
Yunphos Group	–	12,686
Swank International	–	17,465
	<u>–</u>	<u>30,151</u>
Amounts due to related companies:		
Non-trade balance:		
Rightlink	45,395	69,681
Yunphos Group	373	373
Trade balances:		
Rightlink	–	219
Yunphos Group	–	7,297
Dongguan Hamwell	–	16,976
	<u>45,768</u>	<u>94,546</u>

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

## 16 POST BALANCE SHEET EVENT

On 15 September 2009, a direct wholly-owned subsidiary of the Company as a purchaser entered into a conditional sale and purchase agreement with an independent third party to acquire the entire issued share capital of Triumph Fund A Limited at a consideration of HK\$1,855 million, subject to adjustment. The consideration of the proposed acquisition is to be settled in full by the issue of the convertible notes at the initial conversion price of HK\$0.0625 per share (subject to adjustment) by the Company upon completion. Triumph Fund A Limited and its subsidiaries hold the mining licences for two coal mines located in Dongsheng District of Ordos City, Inner Mongolia Autonomous Region, the PRC and are engaged in the business of coal mining.

## **16 POST BALANCE SHEET EVENTS (continued)**

The proposed acquisition contemplated under the sale and purchase agreement constitutes a very substantial acquisition of the Company and is therefore subject to the approval of the shareholders at the extraordinary general meeting. Details of the proposed acquisition were set out in the announcement of the Company dated 23 September 2009. A circular containing, amongst other things, details of the proposed acquisition including details of the convertible notes, financial information of the Group and the target group, a technical report and a valuation report on the coal mines will be dispatched to the shareholders as soon as practicable.

## **17 ULTIMATE HOLDING COMPANY**

The directors regard Sinogreat Limited, a company incorporated in the British Virgin Islands, as 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 2009 (2008: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS RESULTS AND BUSINESS REVIEW**

During the six months ended 30 June 2009, the turnover from continuing operations of the Group has decreased to approximately HK\$40,064,000 as compared with approximately HK\$321,431,000 for the same period of last year. Overall gross profit decreased from approximately HK\$35,749,000 in the same period of last year to approximately HK\$875,000. Such decreases were mainly due to decline of phosphorus business during the period as the demand of phosphorus products was weak during the period.

Selling and distribution costs, and administrative expenses were approximately HK\$1,922,000 and HK\$8,903,000 respectively during the period compared with approximately HK\$11,443,000 and HK\$6,285,000 respectively for the same period of last year.

Loss from continuing operations was approximately HK\$771,000 during the period compared with a net profit from continuing operations of approximately HK\$19,546,000 for the same period of last year.

## **MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

### **FUTURE OUTLOOK**

Following the downward trend in the second half of 2008, the demand of phosphorus products continued to be weak in early 2009. The market had encountered a short term rebound after the Chinese New Year and the Group captured a bulk order of over 2,000 tons. Then the market turned to stagnant again. Facing such unfavourable market and economic situation, the Group will continue to be very cautious and to monitor the market closely so as to take any possible business opportunities during such difficult times.

Regarding the trading of optical products, due to the global economic slowdown, the demand of optical products also decreased. As the retail market shows signs of picking up again, the Group believes the trading of optical products will become profitable in the second half of year 2009.

The Group will continue to initiate and commence new business activities and to identify suitable projects and investment opportunities for possible diversification.

### **LIQUIDITY AND FINANCIAL REVIEW**

The Group mainly finances its day-to-day operations with internally generated cash flow. As at 30 June 2009, the current ratio of the Group, measured as total current assets to total current liabilities, was approximately 168.41% (compared with 137.45% as at 31 December 2008) and the Group has no long term liability as at 30 June 2009.

During the period, the Group recorded a net cash used in operations of approximately HK\$37.5 million.

The gearing of the Group, measured as total debts to total assets, was approximately 59.38% as at 30 June 2009, comparing to that of approximately 72.76% as at 31 December 2008.

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 is no material currency mismatch in assets and liabilities hence minimise exchange risks. The Group does not arrange any forward currency contracts for hedging purposes.



## **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 2009 and 2008, the Group had no capital commitments. The Group had an operating lease commitments amounted to approximately HK\$1.44 million as at 30 June 2009 compared to that of approximately HK\$2.22 million as at 31 December 2008.

As at 30 June 2009, the Group had no charge on the Group's assets (31 December 2008: Nil).

As at 30 June 2009, the Group had no material contingent liabilities (31 December 2008: Nil).

## **HUMAN RESOURCES AND SHARE OPTION SCHEME**

As at 30 June 2009, the Group had 561 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 2009, the total outstanding share options amounted to 12,320,000 shares held by an employee. No share option was exercised 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 30 June 2009, the following interests of 5% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Number of shares held	Approximate percentage of the Company's issued share capital
Chan Yuen Ming ("Mr. Chan")	1,647,746,948 (note 1)	51.33
Sinogreat Limited	1,629,464,158 (note 1)	50.76
Gouw Hiap Kian ("Mr. Gouw")	350,360,636 (note 2)	10.91
Ng Choi Yue Mary	350,360,636 (note 2)	10.91
HSBC International Trustee Limited	323,880,636 (note 2)	10.09
Chung Chiu (PTC) Limited	323,880,636 (note 2)	10.09
Goldig Investment Group Limited ("Goldig")	321,760,636 (note 2)	10.02
Champion Centre Limited	2,120,000 (note 2)	0.06
China Time Investment Holdings Limited	208,324,182 (note 3)	6.49
Wang An Kang ("Mr. Wang")	208,324,182 (note 3)	6.49
Mu Yucun	208,324,182 (note 3)	6.49
Choi Koon Shum, Jonathan ("Mr. Choi")	188,702,795 (note 4)	5.88
Kwan Wing Kum, Janice ("Ms. Kwan")	188,702,795 (note 4)	5.88
Lam Wong Yuk Sin, Mary ("Mrs. Lam")	188,702,795 (note 4)	5.88
Kingsway International Holdings Limited ("Kingsway International")	188,702,795 (note 4)	5.88
Innovation Assets Limited ("Innovation")	188,702,795 (note 4)	5.88
World Developments Limited ("World Developments")	188,702,795 (note 4)	5.88
SW Kingsway Capital Holdings Limited ("SW Kingsway")	188,702,795 (note 4)	5.88
Festival Developments Limited ("Festival Developments")	188,702,795 (note 4)	5.88
Kingsway Lion Spur Technology Limited	188,702,795 (note 4)	5.88

#### Notes:

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

## **SUBSTANTIAL SHAREHOLDERS (continued)**

### **(a) Interest in shares of the Company (continued)**

Notes: (continued)

2. Champion Centre Limited, held 2,120,000 shares, is the wholly own subsidiary of Goldig, which held 321,760,636 shares. Goldig is a wholly owned subsidiary of Chung Chiu (PTC) Limited, which in turn is wholly owned by a discretionary trust. Mr. Gouw, held 26,480,000 shares, is the founder of the discretionary trust, and the trustee of the discretionary trust is HSBC International Trustee Limited. Ng Choi Yue Mary, the spouse of Mr. Gouw, is deemed to be interested in Mr. Gouw's interest in the shares.
3. Mr. Wang is the sole shareholder of China Time Investment Holdings Limited, which owns 208,324,182 shares. Mu Yucun is Mr. Wang's spouse and she is deemed to be interested in Mr. Wang's interest in the shares.
4. Mr. Choi and his spouse Ms. Kwan are deemed to be interested in 188,702,795 shares in the Company by virtue of their 46% shareholding in Kingsway International. Mrs. Lam is deemed to be interested in 188,702,795 shares in the Company by virtue of her 40% shareholding in Kingsway International. Kingsway International, in turn, holds 100% shareholding in Innovation. Innovation, in turn, holds 100% shareholding in World Developments. World Developments, in turn, holds 74% shareholding in SW Kingsway. SW Kingsway, in turn, holds 100% direct shareholdings in Festival Developments. Festival Developments in turn holds 100% direct shareholding in Kingsway Lion Spur Technology Limited, which held 188,702,795 shares of the Company.

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 30 June 2009, 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 2009.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the directors, save as the deviation of Code A.4.1 of the Code on Corporate Governance Practice (the “Code”), the Company has complied with the Code as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2009.

Under provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. All of the existing independent non-executive directors of the Company are not appointed on specific terms, however, all of them are subject to retirement by rotation at the annual general meeting of the Company.

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

## **MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted the Model Code 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 Ms. Liu Yee Nee, Mr. Wang Da Yong, Ms. Louie Mei Po, Mr. Li Wei and Ms. Zhou Jing as Executive Directors and Mr. Ng Wai Hung, Mr. Wu Wang Li and Mr. Jacobsen William Keith as Independent Non-Executive Directors.

## **REVIEW BY AUDIT COMMITTEE**

The 2009 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

**Liu Yee Nee**  
*Chairman*

Hong Kong, 25 September 2009