

The word "YUGANG" is rendered in large, bold, 3D block letters. The letters are white with a dark green shadow on the bottom and right sides, giving them a three-dimensional appearance. They are set against a background of green lines radiating from a central point, creating a sense of depth and movement.

YUGANG

YUGANG

YUGANG INTERNATIONAL LIMITED

(Stock Code : 613)

Annual Report

2007

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Cheung Chung Kiu (*Chairman*)
Mr. Yuen Wing Shing (*Managing Director*)
Mr. Zhang Qing Xin
Mr. Lam Hiu Lo
Mr. Liang Kang

NON-EXECUTIVE DIRECTORS

Mr. Lee Ka Sze, Carmelo
Mr. Wong Yat Fai

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Luk Yu King, James
Mr. Ng Kwok Fu
Mr. Leung Yu Ming, Steven

AUDIT COMMITTEE

Mr. Luk Yu King, James
Mr. Lee Ka Sze, Camerlo
Mr. Ng Kwok Fu
Mr. Leung Yu Ming, Steven

REMUNERATION COMMITTEE

Mr. Cheung Chung Kiu
Mr. Ng Kwok Fu
Mr. Leung Yu Ming, Steven

SECRETARY

Albert T.da Rosa, Jr.

AUDITORS

Ernst & Young

QUALIFIED ACCOUNTANT

Mr. Leung Wai Fai

BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

SOLICITORS

Bermuda:

Conyers Dill & Pearman

Hong Kong:

Woo Kwan Lee & Lo
Cheung, Tong & Rosa

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 3301-3307
China Resources Building
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Wanchai
Hong Kong

WEBSITE ADDRESS

<http://www.yugang.com.hk>

STOCK CODE

613

Chairman's Statement and Management Discussion and Analysis

On behalf of the board of directors (the "Board"), I am pleased to present the annual results of the company (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2007.

RESULT

The Group reported a net profit attributable to shareholders of HK\$265.3 million for the year ended 31 December 2007, representing a decrease of HK\$515.6 million or 66 percent as compared with HK\$780.9 million in 2006. Such decrease was primarily due to a non-recurring gain following a deemed disposal of a subsidiary of the Company, C C Land Holdings Limited ("C C Land") in 2006 which contributed to the Group a net profit of HK\$539.3 million, comprising a gain of HK\$508.9 million on deemed disposal of C C Land as well as the net profit from discontinued operation of packaging business. Excluding the discontinued operations of C C Land, the net profit for the year slightly decreased for HK\$4.5 million or 1.7% as compared with the last corresponding year. The basic earnings per share for the year were 2.90 HK cents (2006: 8.83 HK cents). The basic earnings per share from continuing operations for the year were 2.90 HK cents (2006: 3.05 HK cents).

BUSINESS REVIEW

The performance of local economy in 2007 was slightly affected by the volatility of local stock market and uncertainties in global economy. During the first ten months of the year, Hang Seng Index fueled up drastically, benefited from continuing influx of Mainland funds such as Qualifying Domestic Institutional Investor (QDII). It was later jumped down significantly because of the outbreak of the US sub-prime debt crisis in the last two months of the year. The operating results of the Group's continuing operations were slightly affected due to decrease in contribution from treasury investment segment.

Property Investment Business

Major investment properties of the Group are the whole block of Century Square and Prestige Tower situate in the core of Central District and Tsimshatsui respectively. These buildings are currently held by Y. T. Realty Group Limited ("Y.T. Realty"), being an associate of the Group, whose shares are traded on the main board of the The Stock Exchange of Hong Kong Limited ("Stock Exchange").

During the year, the gross rental income contributed from investment properties held through Y.T. Realty recorded a remarkable increase of HK\$15.2 million or 16.9% to approximately HK\$105.1 million. It was primarily attributable to rental increase of investment properties upon lease renewal or fresh lease cases and higher occupancy rate as a result of robust demand of commercial leasing market. Riding on the property market boom and supported by continual interest rate cuts, favorable rental rise and accelerating consumer spending, profit contribution from investment properties grew constantly, particularly Y.T. Realty had transformed its office buildings to commercial, retail and lifestyle hub.

Y.T. Realty recorded a net profit after tax of HK\$328.6 million for the year, representing an increase of HK\$40.5 million or 14.1% from the last corresponding year. The contribution to the Group's operating profit for the year was therefore increased by HK\$13.8 million.

Infrastructure Business

The Group's investment in infrastructure business was held indirectly through The Cross-Harbour (Holdings) Ltd ("Cross Harbour"), whose shares are listed on the main board of the Stock Exchange. During the year, Cross Harbour recorded a net profit after tax and minority interests of HK\$261.7 million, representing an increase of 51.4 per cent from the last corresponding year. The toll revenue of Cross Harbour increased satisfactorily as the daily throughput of tunnel increased significantly by 10% which outperformed the average growth of the total cross-harbour traffic for the year.

Treasury Investment

Benefited from the strong economic growth of the Mainland, continuing influx of Mainland funds, strong appreciation of Renminbi and liquidity flooding, the local stock market surged to a historical high as the Hang Seng Index hiked through 32,000 points in October 2007. Thereafter, the local financial market turned to be volatile and Hang Seng Index fell down by more than 5,000 points within two months due to sub-prime crisis in the U.S. and its potential spillover impact on Europe. In addition, increasing inflation rate in Mainland China pushed the central government to implement tightening policy of macroeconomic adjustment which adversely affected the market confidence.

The volatility of global and local financial market inevitably affected the performance of the Group's treasury investment segment, though the effect was minimized by the well diversification of the investment portfolios. Profit contribution from the treasury investment business amounted to HK\$158.6 million in 2007, slightly decreased by 6.9% or HK\$11.7 million as compared with 2006.

PRC Trading Business

During the year, the sales turnover of trading metal commodities was HK\$65.1 million, representing an increase of 24% when comparing with the last corresponding year, being benefited from the constant demand in metal commodities.

PROSPECT

Notwithstanding the economy of Hong Kong might inevitably be impacted by the possible slowdown of the US economy and subprime-related woes continue to pummel the global financial markets and thereby weakened investor's confidence, there are still some positive factors to support the local economy such as series cuts of US interest rate which pushed local interest rate to low level, potential appreciation of asset prices in an era of negative real interest rates, strong private consumption, huge amount of fiscal surplus and low unemployment rate etc.

The export growth of Mainland and Hong Kong is expecting a deceleration in 2008 due to the looming of US recession. Due to the Mainland's big snowstorm event in February 2008, a series of infrastructure rebuild and repair programs will be launched by the central government which may stimulate the demand for base metals. The Group remains cautious about the trading prospect of metal commodities.

Chairman's Statement and Management Discussion and Analysis

It is expected that the rental of both retail and commercial properties in Hong Kong will increase moderately. Supported by strong private consumption, the present portfolio of tenants, which mainly comprises of retail and commercial sectors, will enable Y.T. Realty to have more favorable rental income than other similar office buildings of similar grade.

As the global economy will indisputably be volatile in 2008, the Group will adhere to its long-sustained strategy in financial management and focus its investment to achieve long-term strategic growth with sound financial and management capabilities.

FINANCIAL REVIEW

Total turnover of the Group in 2007 was HK\$107.8 million, representing a decrease of HK\$15.0 million or 12.2% from the last corresponding year. Such decrease was mainly due to the gain on disposal of listed equity investment of HK\$13.9 million in 2007 whereas a gain of HK\$34.5 million was recorded in the last corresponding year.

Other income and gains of the Group in 2007 was HK\$200.2 million, representing a decrease of HK\$5.3 million or 2.6% from the last corresponding year. Such decline was attributable to a non-recurring gain on disposal of subsidiaries of HK\$36.1 million only in 2006 and an unrealized fair value gain on listed investment of HK\$168.7 million in 2007, representing an increase of HK\$32.1 million from the last corresponding year.

Administrative expenses for the year was HK\$83.4 million, representing a decrease of HK\$2.0 million or 2.3% from the last corresponding year. It was mainly attributable to a decrease of legal and professional fee of HK\$2.2 million in relation to a transaction of very substantial disposal in C C Land in the last year, details of which were set out in the Company's circular dated 20 October 2006.

As at 31 December 2007, the consolidated net asset value of the Group was HK\$5,098.1 million and the consolidated net asset value per share was HK\$0.55. The Group's total assets and liabilities were HK\$5,157.0 million and HK\$58.9 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the cash and cash equivalents of the Group was HK\$182.8 million, representing an increase of HK\$52.8 million from last year. The cash and listed securities investment of the Group in aggregate was HK\$939.7 million, provided strong support to the working capital of the Group.

The Group had neither bank loan nor contingent liabilities as at 31 December 2007. The Group had currently available and unutilized short-term banking facilities of approximately HK\$263 million.

The Group persistently strengthened its financial position by maintaining high level net current assets of HK\$1,019.5 million or working capital ratio of 18.8 and zero gearing as at 31 December 2007. The gearing ratio of the Group was net debt divided by shareholders' equity. Net debt included interest-bearing bank borrowings, trade creditors, other payables, accrued expenses and customers' deposits received, less cash and cash equivalents.

The Group's financial strategies aimed to maintain strong liquidity and adequate financial resources to enable the capture of any emerging opportunities to make strategic acquisition for the Group's business development.

EXCHANGE RISK

Except some of the Group's securities investments were denominated in foreign currencies which represented an approximately 3.1% of the Group's net asset, the Group's major sources of income, expenses, sales and purchases of goods, major assets and bank deposits were denominated in Hong Kong dollars and US dollars. Hence the Group's exposure to foreign exchange risk is insignificant.

CAPITAL STRUCTURE

As at 31 December 2007, the total number of issued shares of the Company was 9,305,276,756. On 31 July 2007, the holder of the convertible note exercised the conversion rights attaching to the convertible note to convert an aggregate principal amount of HK\$25,895,000 and thereby converted into 290,955,056 new ordinary shares of the Company at the conversion price of HK\$0.089 per share.

There was no convertible note outstanding as at 31 December 2007.

PLEDGE OF ASSETS

As at 31 December 2007, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$60.9 million and time deposits of approximately HK\$9.2 million to secure the general banking facilities granted to the Group.

HUMAN RESOURCES PRACTICES

The total number of employees of the Company as at 31 December 2007 was 39.

The human resources practices of the Company are oriented to attract, retain and motivate high caliber employees to perform at the highest level to attaining the Company's objective of enhancing and maximizing the interests of shareholders, investors and employees as a whole. The Company aims to provide competitive remuneration package to ensure external competitiveness by reference to prevailing market level of remuneration and links to individual contribution to the Company.

The Company provides other fringe and benefits including MPF, medical insurance and discretionary training subsidies. The Company also operates a discretionary share option scheme to motivate the performance of employees.

SIGNIFICANT INVESTMENTS

The Group's equity investment in C C Land was held as an available-for-sale investment at fair value of HK\$2,888.2 million as at 31 December 2007, comprising a fair value gain of HK\$1,617.0 million for the year. The fair value gain from this investment for the year had been taken to an equity reserve account and had significantly increased the shareholders' equity of the Group by 50 per cent. The Group received a dividend income of HK\$12.7 million from C C Land for the year.

The Group maintained its strategic investment in equity interests of Y.T. Realty with a carrying value of HK\$1,019.9 million as at 31 December 2007. The net profit after tax of Y.T. Realty for the year was HK\$328.6 million.

FINAL DIVIDEND

The Board resolved to recommend a final dividend of HK\$0.003 per ordinary share for the year ended 31 December 2007, subject to approval by shareholders of the Company at the forthcoming annual general meeting to be held on 2 May 2008. The final dividend will be paid on 15 May 2008 to the shareholders of the Company whose names appear on the register of members of the Company on 2 May 2008. No interim dividend was declared during the year. In respect of the preceding year, a final dividend of HK\$0.003 per share was paid and no interim dividend was declared.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 30 April 2008 to Friday, 2 May 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 pm on Tuesday, 29 April 2008.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

APPRECIATION

On behalf of the Board, I would like to extend our gratitude and sincere appreciation to the management and all staff for their diligence and dedication throughout the year.

Cheung Chung Kiu

Chairman

Hong Kong, 14 March 2008

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to an ongoing enhancement of effective and efficient corporate governance practices. The board of directors of the Company (the "Board") recognizes that good corporate governance practices are essential in bringing up the success of the Company and balancing the interests of shareholders, investors and employees.

Throughout the accounting period covered by the annual report, the Company had complied with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practice contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation as explained in this report.

Hereunder particularizes the Company's key corporate governance practices:

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Code for Securities Transactions by Directors of the Company ("Directors Securities Dealings Code") on terms as exacting as the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules.

Following specific enquiry by the Company, each Director confirmed that throughout the year of the accounting period covered by the annual report, they had complied with the required standard set out in the Model Code and Directors Securities Dealings Code.

THE BOARD

A. Role and Function of the Board

The Board steers the Company's business direction. The major responsibilities of the Board include formulating the long-term corporate strategy, setting business development plans, supervising and monitoring the performance of the management, reviewing the effectiveness of the system of internal control including financial, operational, compliance and risk management functions, being responsible for the appointment, removal or reappointment of Board members, senior management and auditors, and determining the remuneration of Directors and senior management based on the recommendations of the remuneration committee.

The day-to-day management, administration and operation of the Company have been delegated to the executive board committee, comprising all of the executive Directors. Directions as to the powers delegated are clearly identified and periodical reviews are conducted by the Board to ensure delegated tasks are appropriately performed.

B. Chairman and Chief Executive Officer (“CEO”)

Pursuant to Code Provision A.2.1, the role of chairman and CEO are separated. Mr. Cheung Chung Kiu, being elected the chairman of the Board since 1993, is accountable for the sketching of business development plans, strategies, objectives and policies for the Company. In addition, the chairman ensures that all Directors are properly briefed on issues arising at board meetings and that the Directors receive adequate information in a timely manner. Mr. Yuen Wing Shing, being the managing director of the Company, takes the role of the CEO as described in Appendix 14 to the Listing Rules. The primary role of the CEO is to provide leadership for the implementation of the Company’s objectives, policies and strategies, to be responsible for the day-to-day management of the Company, setting up budgets, monitoring performance of the management and effectiveness of the Company, and establishing and maintaining proper internal control system of the Company.

C. Board Composition

The Board currently comprises ten Directors, of which five are executive Directors, two are non-executive Directors, and three are independent non-executive Directors. The Board members are:

Executive Directors

Mr. Cheung Chung Kiu (*Chairman*)
Mr. Yuen Wing Shing (*Managing Director*)
Mr. Zhang Qing Xin
Mr. Lam Hiu Lo
Mr. Liang Kang

Non-executive Directors

Mr. Lee Ka Sze, Carmelo
Mr. Wong Yat Fai

Independent Non-executive Directors

Mr. Luk Yu King, James
Mr. Ng Kwok Fu
Mr. Leung Yu Ming, Steven

Mr. Zhang Qing Xin is the father of Mr. Cheung Chung Kiu, the chairman of the Company. The biographical details of each Director are set out in the section “Profiles of Directors and Senior Management” on pages 24 to 25 of this report. All Directors are experienced personnel with academic and professional qualifications in the fields of accounting, legal and business management and at least one of them have appropriate professional qualifications of accounting or related financial management expertise. Such balanced composition of executive and non-executive Directors provides an adequate check and balance for safeguarding the interest of shareholders and the Company as a whole.

Corporate Governance Report

D. Confirmation of Independence

In accordance with Rule 3.10 of the Listing Rules, Mr. Luk Yu King, James, Mr. Ng Kwok Fu and Mr. Leung Yu Ming, Steven were appointed as independent non-executive Directors. Each of them had made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the guidelines set out in Rule 3.13 of the Listing Rules and are independent within the terms of the guidelines of the Listing Rules.

E. Board Meetings

The Board members meet regularly, normally four regular meetings of full Board will be held at about quarterly intervals, to review and discuss the overall strategy, operational and financial performance of the Company. In addition, special board meetings are convened when necessary to deal with everyday matters that require the Board's prompt decision, and are thus usually attended to by the executive Directors only. During the year under review, the Board held six full Board meetings and the attendance records of individual Directors are set out as follows:

Directors' attendance at board meetings

	Board Meetings	
	Attended/Held	Percentage
Directors		
Mr. Cheung Chung Kiu	6/6	100%
Mr. Yuen Wing Shing	6/6	100%
Mr. Zhang Qing Xin	6/6	100%
Mr. Lam Hiu Lo	6/6	100%
Mr. Liang Kang	6/6	100%
Non-executive Directors		
Mr. Lee Ka Sze, Carmelo	4/6	67%
Mr. Wong Yat Fai (<i>re-designated from Independent Non-executive Director on 1 October 2007</i>)	5/6	83%
Independent Non-executive Directors		
Mr. Wong Wai Kwong, David (resigned on 26 July 2007)	2/2	100%
Mr. Luk Yu King, James (appointed on 10 September 2007)	2/3	67%
Mr. Ng Kwok Fu	5/6	83%
Mr. Leung Yu Ming, Steven (appointed on 1 October 2007)	1/1	100%

Corporate Governance Report

The Board works effectively and all important issues are discussed in a timely manner. All Directors have access to the advices and services of the company secretary and the company secretarial department to ensure necessary board procedures and all applicable rules and regulations are followed. Notices of at least 14 days have been given to all Directors for all regular board meetings. Agendas and other relevant board papers have been provided to the Directors not less than three days before the Board meeting and the Directors can include matters for discussion in the agenda if necessary. Board minutes have been recorded in sufficient detail and are kept by the company secretarial department ready for inspection at any reasonable time upon reasonable notice by the Directors.

All Directors are regularly updated on governance and regulatory matters. The Directors, upon reasonable request, have access to independent professional advice in appropriate circumstances at the Company's expenses.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

The Bye-laws provide that each Director, including those appointed for a specific term, is required to retire by rotation once every three years and that one-third of the Directors for the time being (or, if the number is not a multiple of three, the nearest to but not less than one-third) shall retire from office by rotation. Retiring Directors shall be eligible for re-election at the annual general meeting of the Company. All the non-executive Directors hold office for a specific term of about three years since their last election/re-election, save for Mr. Luk Yu King, James and Mr. Leung Yu Ming, Steven who will hold office until the conclusion of the annual general meeting of the Company to be held on 2 May 2008, and will then be subject to election by the shareholders of the Company.

Mr. Wong Wai Kowng, David resigned as independent non-executive Director, chairman and member of the audit committee of the Company on 26 July 2007. The Company had complied with the disclosure requirements set out in Rule 13.51(2) of the Listing Rules by including information in the announcement, inter alia, the resignation and the reasons given by Mr. Wong for his resignation, confirmation of no disagreement with the Company and a statement confirming no matters relating to his resignation that needed to be brought to the attention of the shareholders of the Company. By reason of Mr. Wong's resignation, the number and qualifications of independent non-executive Directors of the Company failed to meet the requirements set out in Rule 3.10 of the Listing Rules, and the composition of the audit committee of the Company failed to meet the requirements under Rule 3.21 of the Listing Rules during the period from 26 July 2007 to 10 September 2007. Such deviation was remedied with the appointment of Mr. Luk Yu King, James as independent non-executive Director, chairman and member of the audit committee of the Company on 10 September 2007.

NOMINATION OF DIRECTORS

Although the Company does not set up a nomination committee, the role and function of such committee have been undertaken by the Board. The Company adopts formal, considered and transparent procedures for the appointment of new Directors. The Board is collectively responsible for nominating and appointing new Directors either to fill casual vacancies or as an addition to the Board, subject to re-election by the shareholders at the next general meeting. All Directors submitted for election or re-election have been accompanied by relevant biographical details (including other directorships held in listed public companies in the last three years and other major appointments) to enable shareholders to make an informed decision on their election. If the Board views that there is a need to nominate a candidate to fill a casual vacancy or as an addition to the Board, the Directors will be notified, and they will be entitled to nominate candidates. After receiving such nomination and the relevant résumé

Corporate Governance Report

of the nominees, the Board will review the nomination and consideration would be given, amongst other things, to the nominee's qualification, experience and ability relevant to the Company's business. A Board meeting will then be held to discuss the nomination and approve the appointment. It is believed that all members of the Board would collectively have the required knowledge and skills in identifying, recruiting and evaluating new nominees to the Board.

Two Board meetings were held in 2007 to consider and approve the nomination and appointment of Mr. Luk Yu King, James and Mr. Leung Yu Ming, Steven as independent non-executive Directors of the Company in accordance with the above procedures. Pursuant to Code Provision A.4.2., Mr. Luk and Mr. Leung will be subject to election by shareholders at the annual general meeting of the Company to be held on 2 May 2008.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration committee, comprising a majority of independent non-executive Directors, was established on 30 June 2005. Mr. Cheung Chung Kiu chairs the committee, and other members include Mr. Ng Kwok Fu and Mr. Leung Yu Ming, Steven. The terms of reference of remuneration committee are posted on the Company's website: www.yugang.com.hk.

The principle role and functions of the remuneration committee are as follows:

- (i) To review and make recommendation to the Board on remuneration policy of the Company;
- (ii) To review and make recommendation to the Board on remuneration packages of executive Directors and senior executives of the Company.
- (iii) To review and make recommendation to the Board on fees payable to independent non-executive Directors.

The committee generally meets at least once every year. A meeting was held in 2007 during which all the members attended. Review and discussion had been made, amongst others, on the following issues:

- (i) The remuneration policy of the Company for the years of 2007/08;
- (ii) The directors' fee for the non-executive Directors and independent non-executive Directors;
- (iii) The remuneration packages of Directors (including the basic salaries, discretionary bonus, retirement benefit and discretionary share option);
- (iv) The remuneration packages of senior executives of the Company (including the basic salaries, discretionary bonus, retirement benefit and discretionary share option);
- (v) The existing share option policy;
- (vi) The retirement benefit schemes;
- (vii) The long-term incentive arrangement;

Corporate Governance Report

The Company's remuneration policy is to maintain external competitiveness based on the Company's business needs and expansion strategy. Remuneration will be determined by taking into consideration factors such as market and economic situation, GDP growth and inflation rates. In addition, performance-based assessment such as individual's potential and contribution to the Company, time commitment and responsibilities undertaken will all be considered.

ACCOUNTABILITY AND AUDIT

The Board is responsible for the integrity of financial information. Directors acknowledge their responsibilities to prepare the accounts and financial statements for each financial period in accordance with statutory requirements and applicable accounting standards so as to give a true and fair view of the state of affairs of the Group. Directors also ensure the timely publication of financial statements of the Company. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable and necessary enquires, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

AUDIT COMMITTEE

Mr. Wong Wai Kwong, David resigned as chairman and member of the audit committee of the Company on 26 July 2007 because he needed to spend time defending himself in certain court proceedings and thus could not devote sufficient time to carry out his duties with the Company. The audit committee is currently chaired by Mr. Luk Yu King, James, with other members include Mr. Carmelo Lee Ka Sze, Mr. Ng Kwok Fu and Mr. Leung Yu Ming, Steven, all being non-executive Directors with diversified industry experience, particularly in accounting, legal, commercial and management sectors. The chairman has appropriate professional qualifications and experiences in accounting matters.

The specific written terms of reference which clearly set out the authorities and duties of the audit committee have been posted on the Company's website: www.yugang.com.hk. Generally, the major roles and functions of the Audit Committee are as follows:

1. to review the annual report and half-yearly interim report;
2. to review the group's financial and accounting policies and practices, and any significant and judgmental financial reporting issues;
3. to review the Group's internal control system;
4. to make recommendation to the Board with respect to the appointment, re-appointment and removal of the Company's external auditors, their remuneration and terms of engagement; and
5. to report to the Board on the matters set out in the Code Provisions in relation to the audit committee.

Corporate Governance Report

During the year of 2007, the audit committee has reviewed with the management and external auditors the accounting principles and policies adopted by the Company and the audited financial statements for the year ended 31 December 2007 and the unaudited interim financial statements for the six months ended 30 June 2007, and has discussed auditing, financial and internal control, and financial reporting matters of the Company. The audit committee focuses on the impact of changes in accounting policies and practices, compliance with accounting standards, Listing Rules and applicable legal requirements as a whole.

The audit committee meets regularly since its establishment. In 2007, three meetings with the management and two meetings with the external auditors were held with the attendance rate of 100%. Full minutes of audit committee meetings were kept by the company secretary. Draft and final versions of minutes of the audit committee meetings were sent to all members of the committee for comments and records within a reasonable time. Details of members' attendance at the audit committee meetings held in 2007 are as follows:

Name	Audit Committee	
	Attended/Held	Percentage
Mr. Wong Wai Kwong, David (resigned on 26 July 2007)	1/1	100%
Mr. Luk Yu King, James (appointed on 10 September 2007)	2/2	100%
Mr. Lee Ka Sze, Carmelo	3/3	100%
Mr. Wong Yat Fai (resigned on 1 October 2007)	2/2	100%
Mr. Ng Kwok Fu	3/3	100%
Mr. Leung Yu Ming, Steven (appointed on 1 October 2007)	1/1	100%

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's auditors, Messrs Ernst & Young, was as follows:

Services rendered	Fees paid/payable (HK\$)
Audit fee	1,150,000
Non-audit fee (Note)	371,900
Total	1,521,900

Note: non-audit fee includes an interim result review fee of HK\$185,000 and tax compliance fee of HK\$186,900.

INTERNAL CONTROL

The Board acknowledges the responsibilities to establish, maintain and operate an effective internal control system of the Company and its subsidiaries (the “Group”). The Group’s internal control system comprises a well-established organizational structure and comprehensive policies and procedures, aims to identify and manage risks that could adversely hinder the achievement of the Company business objectives, provides reasonable, albeit not absolute, assurance against failure in operational system, material error, loss or fraud to the Company.

To comply with Code Provision C.2.1., an annual review on the effectiveness of the internal control system of the Group has been conducted by the Board and reviewed by the audit committee, covering all material controls, including financial, operational and compliance control and risk management functions.

The Board is of the view that the internal control system of the Group for the year under review and up to the date of issuance of the annual report is sound and sufficient to safeguard the interests of shareholders, customers and employees. There were no suspected frauds, material error, misstatement and irregularities, nor infringement of applicable laws, rules and regulations that had come to the Board’s attention.

Report of the Directors

The board ("Board") of directors ("Directors") of the company ("Company") is pleased to present their report together with the audited financial statements of the Company and its subsidiaries ("Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries and principal associates are set out in notes 20 and 21 to the financial statements respectively.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 99.

The Board recommended the payment of a final dividend of HK\$0.003 per ordinary share to the shareholders whose name appear on the register of members of the Company on 2 May 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SEGMENT INFORMATION

An analysis of the Group's performance by business and geographical segments for the year ended 31 December 2007 is set out in note 4 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 100. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Particulars of the property, plant and equipment and investment properties of the Group during the year are set out in notes 16 and 17 to the financial statements respectively.

CONVERTIBLE NOTE

Particulars of the Company's convertible note during the year are set out in note 29 to the financial statements.

SHARE CAPITAL

Particulars of the Company's share capital during the year are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of Bermuda which would oblige the Company to offer new shares to existing shareholders on a pro rata basis.

Report of the Directors

RESERVES

Particulars of the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's reserves available for distribution, calculated in accordance with Companies Act (1981) of Bermuda (as amended), amounted to HK\$875,803,000 (2006: HK\$870,303,000) of which HK\$27,916,000 (2006: HK\$27,043,000) has been proposed as a final dividend for the year. In addition, the Company's share premium accounts, in the amount of HK\$907,280,000 (2006: HK\$881,476,000), may be distributed in the form of fully paid bonus shares.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$27,000.

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors:

Mr. Cheung Chung Kiu (*Chairman*)
Mr. Yuen Wing Shing (*Managing Director*)
Mr. Zhang Qing Xin
Mr. Lam Hiu Lo
Mr. Liang Kang

Non-executive Directors:

Mr. Lee Ka Sze, Carmelo
Mr. Wong Yat Fai (re-designated from independent non-executive Director on 1 October 2007)

Independent non-executive Directors:

Mr. Wong Wai Kwong, David (resigned on 26 July 2007)
Mr. Luk Yu King, James (appointed on 10 September 2007)
Mr. Ng Kwok Fu
Mr. Leung Yu Ming, Steven (appointed on 1 October 2007)

Pursuant to bye-law 87 of the bye-laws of the Company ("Bye-laws"), Mr. Yuen Wing Shing, Mr. Liang Kang and Mr. Wong Yat Fai will retire by rotation at the conclusion of the annual general meeting to be held on 2 May 2008, and, being eligible, Mr. Yuen Wing Shing and Mr. Liang Kang will offer themselves for re-election as executive Directors and Mr. Wong Yat Fai will offer himself for re-election as non-executive Director.

Pursuant to bye-law 86(2) of the Bye-laws, Mr. Luk Yu King, James and Mr. Leung Yu Ming, Steven shall retire at the conclusion of the annual general meeting to be held on 2 May 2008, and, being eligible, will offer themselves for election as independent non executive Directors.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Particulars of the Directors' emoluments and the five highest paid individuals in the Group are set out in notes 9 to 10 to the financial statements respectively.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2007, the interests and short positions of the Directors and chief executives and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Long positions in shares and underlying shares of the Company:

Name of Director	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Cheung Chung Kiu	Corporate (<i>note 1</i>)	4,046,389,740	43.49
	Personal	53,320,000	0.57
Mr. Zhang Qing Xin	Personal	13,600,000	0.15
Mr. Lam Hiu Lo	Personal	41,800,000	0.45

(ii) Long positions in shares and underlying shares of associated corporations:

Name of Director	Name of associated corporation	Relationship with the Company	Nature of Shares	Nature of interest	Number of shares held	Percentage of the associated corporation's issued share capital
Mr. Cheung Chung Kiu	Y.T. Realty Group Limited	Associate	Ordinary shares	Corporate (<i>note 2</i>)	273,000,000	34.14
Mr. Ng Kwok Fu	Y.T. Realty Group Limited	Associate	Ordinary shares	Personal and family	90,000	0.01

Notes:

- (1) Out of the 4,046,389,740 shares, 3,194,434,684 shares were held by Chongqing Industrial Limited ("Chongqing") and 851,955,056 shares were held by Timmex Investment Limited ("Timmex").

Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have 35%, 30%, 5% and 30% equity interests in Chongqing respectively.

Report of the Directors

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.

Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu.

- (2) The 273,000,000 shares were held by Funrise Limited which is indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.

Save as disclosed above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations were recorded in the register as required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The share option scheme of the Company (the "Share Option Scheme") was adopted on 29 April 2005, the terms of which were in line with and complied with the requirements of Chapter 17 of the Listing Rules.

No option was granted under the Share Option Scheme and no option was outstanding as at 31 December 2007.

The particulars in relation to the Share Option Scheme that are required to be disclosed under Rules 17.07 to 17.09 of the Listing Rules are set out below:

- | | |
|---|---|
| (1) Purpose of the Share Option Scheme | To provide incentives and rewards to eligible participants for their contributions to the Group and enable the Group to retain existing employees and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group. |
| (2) Participants of the Share Option Scheme | It includes the directors, officers and employees of the Eligible Group and any executives, officers or employees of any business consultants, professional and other advisers of any member of the Eligible Group. |

The Eligible Group includes:

- (i) the Company and each of its substantial shareholders;
- (ii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of the Company or of a substantial shareholder referred to in (i) above; and
- (iii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (ii) above; and
- (iv) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iii) above.

Report of the Directors

- (3) The total number of securities available for issue under the Share Option Scheme together with the percentage of the issued share capital as at the date of the annual report
- 901,432,170 ordinary shares and 9.69% of the existing issued share capital.
- (4) The maximum entitlement of each participant under the Share Option Scheme
- Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting.
- In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.
- (5) The period within which the securities must be taken up under an option
- An option may be exercised at any time during a period to be determined and notified by the Directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the Share Option Scheme.
- (6) The minimum period for which an option must be held before it can be exercised
- There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors.
- (7) Amount payable on acceptance of the option and the period within which such payment must be made
- The offer of a grant of share options may be accepted with a consideration of HK\$1 being payable by the grantee.
- (8) The basis of determining the exercise price
- The exercise price is determined by the Directors and shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of the grant of options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the grant of options; and (iii) the nominal value of the Company's shares.
- (9) The remaining life of the Share Option Scheme
- The Share Option Scheme remains in force until 28 April 2015.

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

Report of the Directors

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the "Share option scheme" stated above, at no time during the year was the Company, or any of its subsidiaries or its holding company, a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions set out in note 39 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance in relation to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party during the year.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS UNDER THE SFO

As at the balance sheet date, the following persons had an interest of 5% or more of the issued share capital and the underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Timmex Investment Limited	1	Corporate	851,955,056	9.16
Chongqing Industrial Limited	2	Corporate	3,194,434,684	34.33
Palin Holdings Limited	3	Trustee of a family trust	3,194,434,684	34.33
Mr. Cheung Chung Kiu	4	Corporate and personal	<u>4,099,709,740</u>	44.06

Notes:

- (1) Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu.
- (2) The voting rights of these shares are exercisable by Chongqing, which is controlled by Mr. Cheung Chung Kiu.
- (3) Palin Holdings Limited is the trustee for the Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.
- (4) Out of the 4,099,709,740 shares, 3,194,434,684 shares and 851,955,056 shares are held by Chongqing and Timmex respectively and 53,320,000 shares are held by Mr. Cheung Chung Kiu personally.

Save as disclosed above, as at 31 December 2007, no person, other than the Directors and chief executives of the Company, whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" above, had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

In 2007, sales to the Group's five largest customers accounted for 66.6% of the total sales for the year whereas sales to the largest customer included therein amounted to 54.9%.

Purchases from the Group's five largest suppliers accounted for 97.9% of the total purchases for the year whereas purchases from the largest supplier included therein amounted to 71%.

As far as the Directors are aware, neither the Directors and their associates, nor any shareholders who, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and five largest suppliers.

CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted connected transactions (the "Transaction") under the Listing Rules. Details of the Transactions are set out as follows:

- (a) The Group entered into a sub-tenancy agreement with Chongqing, a substantial shareholder of the Company, in relation to premises situated at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The total rent and other charges amounted to approximately HK\$996,000 for the year.
- (b) On 25 May 2004, the Company entered into a subscription agreement with Timmex, pursuant to which the Company agreed to issue and Timmex agreed to subscribe for a convertible note of HK\$70,000,000 in cash, bearing interest at a rate of 3% per annum and payable annually in arrears. The convertible note has a maturity date on 31 July 2007 and can be converted into ordinary shares of the Company at the conversion price of HK\$0.075 per share for the first year, HK\$0.082 per share for the second year and HK\$0.089 per share for the third year (subject to adjustment). Given that Mr. Cheung Chung Kiu is a Director and Timmex is wholly owned by him, the entering into the subscription agreement constituted a connected transaction for the Company under the Listing Rules.

On 29 July 2005, the principal amount of HK\$20,325,000 of the convertible note was converted into 271,000,000 ordinary shares of the Company at the conversion price of HK\$0.075 per share. On 31 July 2006, the principal amount of HK\$23,780,000 of the convertible note was converted into 290,000,000 ordinary shares of the Company at the conversion price of HK\$0.082 per share. On 31 July 2007, the principal amount of HK\$25,895,000 of the convertible note was converted into 290,955,056 ordinary shares of the Company at the conversion price of HK\$0.089 per share. As at 31 December 2007, there was no outstanding convertible note. During the year, interest expenses on the convertible note paid to Timmex amounted to HK\$448,000 (2006: HK\$1,189,000).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available and to the best knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

The financial statements for the year ended 31 December 2007 have been audited by Messrs Ernst & Young, who will retire at the conclusion of the annual general meeting to be held on 2 May 2008, being eligible, offer themselves for re-appointment.

On behalf of the Board

Yuen Wing Shing
Managing Director

Hong Kong, 14 March 2008

Profiles of Directors and Senior Management

Cheung Chung Kiu, aged 43, was appointed the chairman of the Company in 1993. Mr. Cheung set up Chongqing Industrial Limited in 1985, a company mainly engaged in the trading business in the PRC. He is the founder of the Group. Mr. Cheung is also the chairman of Y.T. Realty Group Limited (“Y.T. Realty”), The Cross-Harbour (Holdings) Limited (“Cross-Harbour”) and C C Land Holdings Ltd (“C C Land”). All of the above companies are listed on the Stock Exchange. In addition, he is the director of such other companies disclosed in the section headed “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations” in the Report of the Directors. Further, Mr. Cheung is the son of Mr. Zhang Qing Xin, an Executive Director of the Company.

Yuen Wing Shing, aged 61, was appointed as Executive Director of the Company in June 1993 and the Managing Director of the Company on 1 January 2005. He is responsible for the Group’s administration and business operations. Mr. Yuen holds a diploma in management studies from The Hong Kong Polytechnic University. Prior to joining the Company, he had held senior management positions with a major bank in Hong Kong for over 20 years. He is also an executive director of Y.T. Realty and Cross-Harbour. In addition, Mr. Yuen is a non-executive director of Silver Grant International Industries Ltd. All of the above companies are listed on the Stock Exchange.

Zhang Qing Xin, aged 71, was appointed as Executive Director of the Company in December 1995. Mr. Zhang has over 20 years of experience in import and export trading business. Prior to joining the Company, he had been the deputy general manager of a foreign trade enterprise for more than 10 years. Mr. Zhang is the director of Chongqing Industrial Ltd, the major shareholder of the Company. Mr. Zhang is the father of Mr. Cheung Chung Kiu, the chairman of the Company.

Lam Hiu Lo, aged 46, was appointed as Executive Director of the Company in 1993. He is mainly responsible for the sales and marketing of the Group’s trading business in the PRC. Prior to joining the Company, he had over 15 years of experience in trading with PRC parties. He is an executive director of C C Land.

Liang Kang, aged 65, was appointed as Executive Director of the Company in June 1995. He is mainly responsible for the sales and marketing of the Group’s trading business in the PRC. Prior to joining the Company, he had been engaged in the trading business in the PRC for over 15 years.

Lee Ka Sze, Carmelo, aged 47, was appointed as Independent Non-executive Director of the Company in 1993 and redesignated as Non-executive Director of the Company on 30 September 2004. Mr. Lee received his Bachelor of Laws degree and the Postgraduate Certificate in Laws from The University of Hong Kong. He is a partner of Messrs. Woo, Kwan, Lee & Lo. In addition, Mr. Lee is a non-executive director of Y. T. Realty, Cross-Harbour, China Pharmaceutical Group Limited, Hopewell Holdings Limited, Safety Godown Company Limited, Termbray Industries International (Holdings) Limited, Taifook Securities Group Limited and he is an independent non-executive director of KWG Property Holdings Limited. All of the above companies are listed on the Stock Exchange.

Wong Yat Fai, aged 48, was appointed as Independent Non-executive Director of the Company on 30 September 2004 and re-designated as Non-executive Director of the Company on 1 October 2007. Mr. Wong holds a professional diploma in banking from The Hong Kong Polytechnic University. He has over 13 years of working experience with an international banking group. He is an executive director of GR Vietnam Holdings Limited and a non-executive director of Y. T. Realty, Cross-Harbour and C C Land. All of the above companies are listed on the Stock Exchange.

Profiles of Directors and Senior Management

Luk Yu King, James, aged 53, was appointed as Independent Non-executive Director of the Company on 10 September 2007. Mr. Luk graduated from the University of Hong Kong with a Bachelor of Science degree. He is a fellow of The Association of Chartered Certified Accountants in the United Kingdom, an associate of the Hong Kong Institute of Certified Public Accountants and an ordinary member of Hong Kong Securities Institute. Mr. Luk has over ten years of experience in corporate finance, securities and commodities trading business with several international and local financial institutions. Mr. Luk is an independent non-executive director of Y.T. Realty and Cross-Harbour. Mr. Luk was an independent non-executive director of Longlife Group Holdings Limited but resigned on 30 November 2007. All of the above companies are listed on the Stock Exchange.

Ng Kwok Fu, aged 36, was appointed as Independent Non-executive Director of the Company on 30 September, 2004. Mr Ng holds a certificate in accounting from Grant MacEwan Community College. Mr. Ng has over 16 years experience in marketing, trading and purchasing of construction materials and providing technical control, support and management in building projects. He is an independent non-executive director of Y. T. Realty and Cross-Harbour.

Leung Yu Ming, Steven, aged 48, was appointed as Independent Non-executive Director of the Company on 1 October 2007. Mr. Leung holds the degree of Master in Accountancy from Charles Sturt University in Australia and the degree of Bachelor of Social Sciences from the Chinese University of Hong Kong. Mr. Leung is an associate member of The Institute of Chartered Accountants in England and Wales, a fellow of The Association of Chartered Certified Accountants in the UK, the Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong. Mr. Leung is also a practising certified public accountant in Hong Kong and a certified practising accountant of CPA Australia. Mr. Leung previously worked in Nomura International (Hong Kong) Limited as an Assistant Vice-President in the International Finance and Corporate Finance Department. He commenced public practice in auditing and taxation in 1990 and is currently the senior partner of a firm of certified public accountants. Mr. Leung has over 22 years of experience in assurance, accounting, taxation, financial management and corporate finance. Mr. Leung is an independent non-executive director of Y.T. Realty, Cross-Harbour, C C Land and Suga International Holdings Limited. All of the above companies are listed on the Stock Exchange.

Leung Wai Fai, aged 46, joined the Company in 1993 and is the Group's Financial Controller. Mr. Leung graduated from University of Wisconsin – Madison, USA, with a Bachelor of Business Administration degree. He is a fellow of both The Association of Chartered Certified Accountants in the United Kingdom and The Hong Kong Institute of Certified Public Accountants. He is an executive director of C C Land and Cross-Harbour.

Wong Ka Tai, aged 41, joined the Company in 2000 and held the position of Senior Finance and Accounting Manager. Mr. Wong graduated with a Bachelor of Business Administration degree major in finance. He holds a Master of Corporate Finance degree with credit from The Hong Kong Polytechnic University. He is a fellow of The Association of Chartered Certified Accountants in the United Kingdom and an associate of The Hong Kong Institute of Certified Public Accountants. He has more than 15 years experience in accounting, auditing, tax planning, internal audit and corporate finance. Prior to joining the Company, he had held a senior position with a sizeable publicly listed company for over 3 years and had relevant audit experience in an international accounting firm.

Wong Sze Chak, aged 45, joined the Company in 1993. He is the head of the Company's sales office in Chengdu. Mr. Wong has over 10 years experience in China trade. He is responsible for the Group's business planning and development in the interior region of Mainland China.

Independent Auditors' Report



To the shareholders of

Yugang International Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Yugang International Limited set out on pages 28 to 99, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Independent Auditors' Report *(continued)*

OPINION

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

Ernst & Young

Certified Public Accountants

18/F, Two International Finance Centre

8 Finance Street

Central

Hong Kong

14 March 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
CONTINUING OPERATIONS			
REVENUE	5	107,819	122,847
Cost of sales		(63,860)	(51,348)
Gross profit		43,959	71,499
Other income and gains	5	200,235	205,537
Administrative expenses		(83,407)	(85,389)
Other expenses	6	—	(3,490)
Finance costs	8	(2,708)	(8,740)
Share of profits and losses of:			
A jointly-controlled entity		—	(359)
Associates		129,615	110,918
PROFIT BEFORE TAX	7	287,694	289,976
Tax	11	(22,412)	(20,172)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		265,282	269,804
DISCONTINUED OPERATIONS			
Profit after tax for the year from discontinued operations	13	—	539,340
PROFIT FOR THE YEAR		265,282	809,144
Attributable to:			
Equity holders of the Company	12	265,282	780,923
Minority interests		—	28,221
		265,282	809,144
DIVIDEND	14	27,916	27,043
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	15		
Basic			
— For profit for the year		2.90 HK cents	8.83 HK cents
— For profit from continuing operations		2.90 HK cents	3.05 HK cents
Diluted			
— For profit for the year		2.86 HK cents	8.41 HK cents
— For profit from continuing operations		2.86 HK cents	2.92 HK cents

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	18,651	16,389
Investment properties	17	15,300	11,700
Prepaid land lease payments	18	96,943	72,934
Interests in associates	21	1,019,915	899,310
Convertible debentures and notes	22	—	47,416
Loans receivable	23	1,000	1,000
Available-for-sale investments	24	2,916,046	1,271,198
Other assets		12,360	12,360
Total non-current assets		4,080,215	2,332,307
CURRENT ASSETS			
Equity investments at fair value through profit or loss	25	756,882	731,366
Loans receivable	23	102,729	159,991
Trade debtors	26	5,127	7,574
Other debtors, deposits and prepayments		18,419	15,662
Prepaid land lease payments	18	1,554	1,347
Pledged time deposits		9,206	8,754
Time deposits		50,243	119,217
Cash and bank balances		132,595	10,786
Total current assets		1,076,755	1,054,697
CURRENT LIABILITIES			
Trade creditors	27	1,046	977
Tax payable		31,708	22,712
Other payables		3,995	3,076
Accrued expenses		20,139	21,588
Customers' deposits received		348	127
Interest-bearing bank borrowings	28	—	95,000
Convertible note	29	—	25,299
Total current liabilities		57,236	168,779
NET CURRENT ASSETS		1,019,519	885,918
TOTAL ASSETS LESS CURRENT LIABILITIES		5,099,734	3,218,225

Consolidated Balance Sheet (continued)

31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		5,099,734	3,218,225
NON-CURRENT LIABILITIES			
Deferred tax liabilities	30	1,628	977
Net assets		5,098,106	3,217,248
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	31	93,053	90,143
Equity component of convertible note	29	—	2,819
Reserves	32	4,977,137	3,097,243
Proposed final dividend	14	27,916	27,043
Total equity		5,098,106	3,217,248

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Attributable to equity holders of the Company												
	Notes	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Equity component of a convertible note HK\$'000	Other reserves HK\$'000	Available-for-sale investment revaluation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
As at 1 January 2006		87,243	858,931	760,799	(302)	5,407	1,559	—	344,208	26,173	2,084,018	209,306	2,293,324
Fair value changes of an available-for-sale investment		—	—	—	—	—	—	356,258	—	—	356,258	—	356,258
Share of changes in reserves of associates		—	—	—	—	—	(518)	—	—	—	(518)	—	(518)
Total income and expense for the year recognised directly in equity		—	—	—	—	—	(518)	356,258	—	—	355,740	—	355,740
Profit for the year		—	—	—	—	—	—	780,923	—	—	780,923	28,221	809,144
Total income and expense for the year		—	—	—	—	—	(518)	356,258	780,923	—	1,136,663	28,221	1,164,884
Deemed disposal of subsidiaries	33(a)	—	—	—	(117)	—	—	—	—	—	(117)	(228,740)	(228,857)
Acquisition of minority interests		—	—	—	—	—	—	—	—	—	—	(404)	(404)
Issue of shares upon conversion of a convertible note	29, 31	2,900	22,545	—	—	(2,588)	—	—	—	—	22,857	—	22,857
Proposed final dividend	14	—	—	—	—	—	—	(27,043)	27,043	—	—	—	—
Dividend paid		—	—	—	—	—	—	—	(26,173)	(26,173)	(8,383)	(34,556)	(34,556)
At 31 December 2006 and at 1 January 2007		90,143	881,476*	760,799*	(419)*	2,819	1,041*	356,258*	1,098,088*	27,043	3,217,248	—	3,217,248
Fair value changes of available-for-sale investments		—	—	—	—	—	—	1,617,544	—	—	1,617,544	—	1,617,544
Share of changes in reserves of associates		—	—	—	—	—	(820)	—	—	—	(820)	—	(820)
Total income and expense for the year recognised directly in equity		—	—	—	—	—	(820)	1,617,544	—	—	1,616,724	—	1,616,724
Profit for the year		—	—	—	—	—	—	265,282	—	—	265,282	—	265,282
Total income and expense for the year		—	—	—	—	—	(820)	1,617,544	265,282	—	1,882,006	—	1,882,006
Issue of shares upon conversion of a convertible note	29, 31	2,910	25,804	—	—	(2,819)	—	—	—	—	25,895	—	25,895
Proposed final dividend	14	—	—	—	—	—	—	(27,916)	27,916	—	—	—	—
Dividend paid		—	—	—	—	—	—	—	(27,043)	(27,043)	—	—	(27,043)
At 31 December 2007		93,053	907,280*	760,799*	(419)*	—	221*	1,973,802*	1,335,454*	27,916	5,098,106	—	5,098,106

* These reserve accounts comprise the consolidated reserves of HK\$4,977,137,000 (2006: HK\$3,097,243,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		287,694	289,976
From discontinued operations	13	—	32,728
Adjustments for:			
Share of profits and losses of:			
A jointly-controlled entity		—	359
Associates		(129,615)	(110,918)
Interest income from convertible notes and loans receivable	5	(10,819)	(18,680)
Interest income on bank deposits	5	(8,276)	(14,497)
Dividend income from listed investments	5	(17,715)	(17,287)
Dividend income from an available-for-sale investment	5	(12,712)	—
Impairment of trade debtors	6	—	2,831
Fair value gains on investment properties	5	(3,600)	(2,530)
Fair value gains on equity investments			
at fair value through profit or loss	5	(168,712)	(136,601)
Gain on disposal of listed equity investments			
at fair value through profit or loss	5	(13,911)	(34,485)
Gain on disposal of subsidiaries	5	—	(36,144)
Gain arising from redemption of convertible notes	5	—	(3,066)
Gain on redemption of investments at fair value through profit or loss		—	(32)
Gain on derecognition of investments at fair value through profit or loss	5	—	(17,229)
Fair value (gains)/losses on convertible debentures and notes	5, 6	(5,072)	3,682
Provision against obsolete inventories	7	—	1,039
Depreciation	7	2,509	10,194
Amortisation on prepaid land lease payments	7	1,563	2,886
Gain on disposal of items of property, plant and equipment	7	(110)	(82)
Finance costs	8	2,708	10,684
		(76,068)	(37,172)

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Decrease in inventories		—	908
Decrease/(increase) in trade debtors		2,447	(78,801)
Increase in other debtors, deposits and prepayments		(11,752)	(4,166)
Increase in bills receivable		—	(251)
Decrease/(increase) in equity investments at fair value through profit or loss		296,421	(181,245)
Decrease in loans receivable		64,163	16,951
Increase in trade creditors		69	31,046
Decrease in bills payable and trust receipt loans, secured		—	(663)
Increase/(decrease) in other payables		919	(363)
(Decrease)/increase in accrued expenses		(940)	4,222
Increase in customers' deposits received		221	905
Dividend received from listed investments		7,568	4,221
Interest received from convertible notes and loans receivable		10,390	15,799
Cash generated from/(used in) operations		293,438	(228,609)
Hong Kong profits tax paid		(12,766)	(2,462)
Net cash inflow/(outflow) from operating activities		280,672	(231,071)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	16	(4,771)	(45,303)
Additions to prepaid land lease payments	18	(25,779)	—
Proceeds from disposal of items of property, plant and equipment		110	96
Proceeds received from disposal of subsidiaries		—	56,000
Proceeds from redemption of investments at fair value through profit or loss		—	1,280
Proceeds from exchange of investments at fair value through profit or loss		—	4,825
Interest received from bank deposits		8,322	14,546
Dividend received from an associate		8,190	11,622
Dividend received from an available-for-sale investment		12,712	—
Purchases of convertible debentures and notes		(74,200)	(68,000)
Purchases of an available-for-sale investment		(27,304)	—
Proceeds from redemption of convertible debentures and notes		—	38,500
Deemed disposal of subsidiaries	33(a)	—	(236,420)
Acquisition of an additional interest in a subsidiary		—	(992)
Increase in pledged time deposits		(452)	(1,482)
Net cash outflow from investing activities		(103,172)	(225,328)

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2007

	2007 HK\$'000	2006 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to bank loans	115,000	493,391
Repayment of bank loans	(210,000)	(373,044)
Interest paid	(2,622)	(9,328)
Dividend paid	(27,043)	(26,173)
Dividends paid to minority shareholders	—	(8,383)
Net cash inflow/(outflow) from financing activities	(124,665)	76,463
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	52,835	(379,936)
Cash and cash equivalents at beginning of year	130,003	509,939
CASH AND CASH EQUIVALENTS AT END OF YEAR	182,838	130,003
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	132,595	10,786
Non-pledged time deposits with original maturity of less than three months when acquired	50,243	119,217
	182,838	130,003

Balance Sheet

31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	20	1,874,592	1,870,513
CURRENT ASSETS			
Prepayments		781	771
Cash and bank balances		1,421	1,462
Total current assets		2,202	2,233
CURRENT LIABILITIES			
Tax payable		—	567
Other payables and accrued expenses		658	2,139
Convertible note	29	—	25,299
Total current liabilities		658	28,005
NET CURRENT ASSETS/(LIABILITIES)		1,544	(25,772)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,876,136	1,844,741
Net assets		1,876,136	1,844,741
EQUITY			
Issued capital	31	93,053	90,143
Equity component of convertible note	29	—	2,819
Reserves	32	1,755,167	1,724,736
Proposed final dividend	14	27,916	27,043
Total equity		1,876,136	1,844,741

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

Notes to Financial Statements

31 December 2007

1. CORPORATE INFORMATION

Yugang International Limited is a company incorporated in Bermuda with limited liability. The principal place of business of the Company is located at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

During the year, the Group was involved in the following principal activities:

- (i) trading of scrap metals and other materials;
- (ii) treasury investment; and
- (iii) property and other investments.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

Notes to Financial Statements

31 December 2007

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements — Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 41 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company did not have any of such arrangement during the year, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has not changed the terms of such contracts, the interpretation has had no effect on these financial statements.

Notes to Financial Statements

31 December 2007

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 January 2008

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 (Revised) and HKFRS 8 may result in new or amended disclosure, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and neither has joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates *(Continued)*

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for associates is included in the determination of the Group's share of the associates' profit or loss in the period in which the investments are acquired.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties, goodwill and non-current assets/disposal groups classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles and yachts	20% — 25%
Plant and machinery	10%
Moulds	15%

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading or these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interests earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gains or losses previously reported in equity are included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policy set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. The Group generally refers to 30% or more as significant and regards a period of greater than 24 months as prolonged. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible notes based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Cost is determined on the weighted average method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and in selling and distribution.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits and short term highly liquid investments that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances and time deposits represent assets which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income from properties, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (d) dividend income, when the shareholder's right to receive payment has been established; and
- (e) gain or loss on the disposal of listed securities, on the trade date.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Retirement benefits scheme

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

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which has been earned by the employees from their service to the Group to the balance sheet date.

Paid leave carried forward

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Notes to Financial Statements

31 December 2007

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimation of fair value of investment properties

The fair values of the Company's investment properties are assessed by management based on the property valuation performed by independent qualified valuers on an open market, existing use basis. The assumptions adopted in the property valuation are based on market conditions existing at each balance sheet date, with reference to comparable sales transactions and where appropriate, on the basis of capitalisation of the net income after allowances for outgoings and in some cases provisions for reversionary income potential.

Impairment of trade debtors

In determining whether impairment of trade debtors is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the Group's responsible personnel discuss with the relevant customers and report to management on the recoverability. Specific provision for impairment is only made for trade debtors that are unlikely to be collected.

Notes to Financial Statements

31 December 2007

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements for their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2007, no impairment losses have been recognised for available-for-sale assets (2006: Nil). The carrying amount of available-for-sale assets was HK\$2,916,046,000 (2006: HK\$1,271,198,000).

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the trading of scrap metals and other materials;
- (b) the treasury investment segment includes the trading of securities, interest and dividend income from securities investment and interest income from the provision of financing services; and
- (c) the property and other investments segment mainly comprises rental income from investment properties and the holding of available for-sale investments.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments for the year ended 31 December 2007.

Year ended 31 December 2007

	Continuing operations					Discontinued operations			Consolidated HK\$'000
	Trading of scrap metals and other materials HK\$'000	Treasury investment HK\$'000	Property and other investments HK\$'000	Unallocated HK\$'000	Total HK\$'000	Manufacture and sale of packaging products HK\$'000	Manufacture and sale of luggage products HK\$'000	Total HK\$'000	
Segment revenue:									
Revenue from external customers	65,074	42,745	—	—	107,819	—	—	—	107,819
Other revenue	—	—	13,475	—	13,475	—	—	—	13,475
Total revenue	65,074	42,745	13,475	—	121,294	—	—	—	121,294
Segment results	(3,232)	158,584	16,375	—	171,727	—	—	—	171,727
Unallocated expenses, net					(19,216)				(19,216)
Interest income on bank deposits					8,276				8,276
Finance costs					(2,708)				(2,708)
Share of profits of associates	—	—	129,615	—	129,615	—	—	—	129,615
Profit before tax					287,694				287,694
Tax					(22,412)				(22,412)
Profit for the year					265,282				265,282
Assets and liabilities:									
Segment assets	13,334	960,883	2,955,451	—	3,929,668	—	—	—	3,929,668
Interests in associates	—	—	1,019,915	—	1,019,915	—	—	—	1,019,915
Unallocated assets	—	—	—	207,387	207,387	—	—	—	207,387
Total assets									5,156,970
Segment liabilities	1,970	69	23	—	2,062	—	—	—	2,062
Unallocated liabilities	—	—	—	56,802	56,802	—	—	—	56,802
Total liabilities									58,864
Other segment information:									
Capital expenditure	—	—	—	(30,550)	(30,550)	—	—	—	(30,550)
Depreciation	—	(203)	—	(2,306)	(2,509)	—	—	—	(2,509)
Amortisation on prepaid land lease payments	—	—	—	(1,563)	(1,563)	—	—	—	(1,563)
Fair value gains on equity investments at fair value through profit or loss	—	168,712	—	—	168,712	—	—	—	168,712
Gain on disposal of listed equity investments at fair value through profit or loss	—	13,911	—	—	13,911	—	—	—	13,911

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

The following tables present revenue, profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments for the year ended 31 December 2006.

Year ended 31 December 2006

	Continuing operations					Discontinued operations			Consolidated HK\$'000
	Trading of scrap metals and other materials HK\$'000	Treasury investment HK\$'000	Property and other investments HK\$'000	Unallocated HK\$'000	Total HK\$'000	Manufacture and sale of packaging products HK\$'000	Manufacture and sale of luggage products HK\$'000	Total HK\$'000	
Segment revenue:									
Revenue from external customers	52,395	70,452	—	—	122,847	265,154	383,754	648,908	771,755
Other revenue	—	—	1,842	—	1,842	—	—	—	1,842
Total revenue	52,395	70,452	1,842	—	124,689	265,154	383,754	648,908	773,597
Segment results									
	(3,714)	170,305	39,884	—	206,475	31,125	6,994	38,119	244,594
Unallocated expenses, net					(25,537)			(10,725)	(36,262)
Gain on deemed disposal of subsidiaries					—			508,885	508,885
Interest income on bank deposits					7,219			7,278	14,497
Finance costs					(8,740)			(1,944)	(10,684)
Share of profits and losses of:									
A jointly-controlled entity	—	—	(359)	—	(359)	—	—	—	(359)
Associates	—	—	110,918	—	110,918	—	—	—	110,918
Profit before tax					289,976			541,613	831,589
Tax					(20,172)			(2,273)	(22,445)
Profit for the year					269,804			539,340	809,144
Assets and liabilities:									
Segment assets	15,774	1,019,592	1,295,312	—	2,330,678	—	—	—	2,330,678
Interests in associates	—	—	899,310	—	899,310	—	—	—	899,310
Unallocated assets	—	—	—	157,016	157,016	—	—	—	157,016
Total assets									3,387,004
Segment liabilities	4,056	39	—	—	4,095	—	—	—	4,095
Unallocated liabilities	—	—	—	165,661	165,661	—	—	—	165,661
Total liabilities									169,756
Other segment information:									
Capital expenditure	—	—	—	(4,285)	(4,285)	(38,013)	(3,005)	(41,018)	(45,303)
Depreciation	—	(297)	—	(2,394)	(2,691)	(5,699)	(1,804)	(7,503)	(10,194)
Amortisation on prepaid land lease payments	—	—	—	(1,443)	(1,443)	(1,390)	(53)	(1,443)	(2,886)
Impairment of trade debtors	—	—	—	—	—	(1,204)	(1,627)	(2,831)	(2,831)
Provision against obsolete inventories	—	—	—	—	—	—	(1,039)	(1,039)	(1,039)
Fair value gains on equity investments at fair value through profit or loss	—	136,601	—	—	136,601	—	—	—	136,601
Gain on disposal of listed equity investments at fair value through profit or loss	—	34,485	—	—	34,485	—	—	—	34,485
Gain on derecognition of investment at fair value through profit or loss	—	17,229	—	—	17,229	—	—	—	17,229

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and certain assets and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

	The PRC		North and South Americas	European Union	Others	Consolidated
	Hong Kong	Elsewhere in the PRC				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

Year ended 31 December 2007

Segment revenue:

Revenue from external customers	42,745	65,074	—	—	—	107,819
Other revenue	13,475	—	—	—	—	13,475

Revenue from continuing operations

	56,220	65,074	—	—	—	121,294
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Other segment information:

Segment assets	4,956,014	5,407	—	—	195,549	5,156,970
Capital expenditure	30,550	—	—	—	—	30,550

Year ended 31 December 2006

Segment revenue:

Revenue from external customers	149,273	50,135	359,330	172,235	40,782	771,755
Other revenue	1,842	—	—	—	—	1,842

Attributable to discontinued operations

	151,115	50,135	359,330	172,235	40,782	773,597
	(80,784)	—	(359,330)	(172,235)	(36,559)	(648,908)

Revenue from continuing operations

	70,331	50,135	—	—	4,223	124,689
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Other segment information:

Segment assets	3,174,492	7,575	—	—	204,937	3,387,004
Capital expenditure	40,536	4,767	—	—	—	45,303

Notes to Financial Statements

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5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of the net invoiced value of goods sold, after the allowances for returns and trade discounts, gain on disposal of trading securities, dividend income from listed investments and interest income from convertible notes and loans receivable during the year.

An analysis of the Group's revenue, other income and gains is as follows:

Note	2007			2006		
	Continuing operations HK\$'000	Discontinued operations HK\$'000	Total HK\$'000	Continuing operations HK\$'000	Discontinued operations HK\$'000	Total HK\$'000
Revenue						
Sale of goods	65,074	—	65,074	52,395	648,908	701,303
Gain on disposal of listed equity investments at fair value through profit or loss	13,911	—	13,911	34,485	—	34,485
Dividend income from listed investments	17,715	—	17,715	17,287	—	17,287
Interest income from convertible notes and loans receivable	10,819	—	10,819	18,680	—	18,680
Others	300	—	300	—	—	—
	107,819	—	107,819	122,847	648,908	771,755
Other income and gains						
Gross rental income	763	—	763	1,842	—	1,842
Interest income on bank deposits	8,276	—	8,276	7,219	7,278	14,497
Fair value gains, net: Equity investments at fair value through profit or loss	168,712	—	168,712	136,601	—	136,601
Convertible debentures and notes	5,072	—	5,072	—	—	—
Gain on disposal of subsidiaries	—	—	—	36,144	—	36,144
Gain on derecognition of investments at fair value through profit or loss	—	—	—	17,229	—	17,229
Gain arising from redemption of convertible notes	—	—	—	3,066	—	3,066
Dividend income from an available-for-sale investment	12,712	—	12,712	—	—	—
Fair value gains on investment properties	3,600	—	3,600	2,530	—	2,530
Others	1,100	—	1,100	906	2,692	3,598
	200,235	—	200,235	205,537	9,970	215,507

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6. OTHER EXPENSES

	2007			2006		
	Continuing operations HK\$'000	Discontinued operations HK\$'000	Total HK\$'000	Continuing operations HK\$'000	Discontinued operations HK\$'000	Total HK\$'000
Exchange losses/(gains), net	—	—	—	(342)	815	473
Fair value losses on convertible debentures and notes, net	—	—	—	3,682	—	3,682
Impairment of trade debtors	—	—	—	—	2,831	2,831
Others	—	—	—	150	—	150
	—	—	—	3,490	3,646	7,136

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting) the following:#

	Notes	2007 HK\$'000	2006 HK\$'000
Cost of inventories sold		63,860	615,565
Provision against obsolete inventories		—	1,039
Depreciation	16	2,509	10,194
Amortisation on prepaid land lease payments	18	1,563	2,886
Minimum lease payments under operating leases:			
Land and buildings		996	2,875
Others		6,437	11,256
		7,433	14,131
Auditors' remuneration		1,150	1,808
Staff costs (including directors' remuneration) (note 9):			
Wages and salaries		38,086	54,004
Pension scheme contributions		375	1,421
Less: Forfeited contributions		—	(62)
Net pension scheme contributions*		375	1,359
		38,461	55,363
Net rental income		(763)	(1,842)
Exchange losses/(gains), net		(294)	473
Gain on disposal of items of property, plant and equipment		(110)	(82)
Impairment of goodwill arising from acquisition of associates		—	1,900

* At 31 December 2007, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2006: Nil).

The disclosures presented in this note include those amounts charged/credited in respect of the discontinued operations.

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8. FINANCE COSTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within one year	1,664	8,019
Interest on a convertible note (note 29)	1,044	2,665
Total interest expense on financial liabilities not at fair value through profit or loss	2,708	10,684
Attributable to discontinued operations (note 13)	—	1,944
Attributable to continuing operations reported in the consolidated income statement	2,708	8,740
	2,708	10,684

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Fees	1,900	2,137
Other emoluments:		
Salaries, allowances and benefits in kind	9,473	8,406
Bonuses	9,400	8,300
Pension scheme contributions	48	48
	20,821	18,891

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9. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007 HK\$'000	2006 HK\$'000
Mr. Wong Wai Kwong, David	500	708
Mr. Ng Kwok Fu	200	200
Mr. Wong Yat Fai	150	229
	850	1,137

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

Mr. Wong Wai Kwong, David resigned as an independent non-executive director on 26 July 2007.

Mr. Wong Yat Fai was re-designated from an independent non-executive director to a non-executive director on 1 October 2007.

(b) Executive directors and Non-executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Bonuses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2007					
Executive directors:					
Mr. Cheung Chung Kiu	—	3,610	5,000	12	8,622
Mr. Yuen Wing Shing	—	2,580	1,300	12	3,892
Mr. Zhang Qing Xin	—	1,025	1,200	—	2,225
Mr. Lam Hiu Lo	—	1,290	1,200	12	2,502
Mr. Liang Kang	—	968	700	12	1,680
	—	9,473	9,400	48	18,921
Non-executive directors:					
Mr. Lee Ka Sze, Carmelo	1,000	—	—	—	1,000
Mr. Wong Yat Fai	50	—	—	—	50
	1,050	—	—	—	1,050
	1,050	9,473	9,400	48	19,971

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9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and Non-executive directors (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Bonuses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2006					
Executive directors:					
Mr. Cheung Chung Kiu	—	3,190	4,500	12	7,702
Mr. Yuen Wing Shing	—	2,330	1,200	12	3,542
Mr. Zhang Qing Xin	—	840	1,000	—	1,840
Mr. Lam Hiu Lo	—	1,165	1,000	12	2,177
Mr. Liang Kang	—	881	600	12	1,493
	—	8,406	8,300	48	16,754
Non-executive director:					
Mr. Lee Ka Sze, Carmelo	1,000	—	—	—	1,000
	1,000	8,406	8,300	48	17,754

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2006: three) non-director, highest paid employees for the year are as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	2,840	5,390
Bonuses	2,400	4,400
Pension scheme contributions	24	139
	5,264	9,929

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2007	2006
HK\$2,500,001 to HK\$3,000,000	2	2
HK\$4,500,001 to HK\$5,000,000	—	1
	2	3

Notes to Financial Statements

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11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Group:		
Current – Hong Kong		
Charge for the year	22,328	31,694
Overprovision in prior years	(567)	(7,488)
	21,761	24,206
Deferred (<i>note 30</i>)	651	(1,761)
Total tax charge for the year	22,412	22,445

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, is as follows:

Group	2007 <i>HK\$'000</i>	%	2006 <i>HK\$'000</i>	%
Profit before tax (including profit from discontinued operations)	287,694		831,589	
Tax at the statutory tax rate	50,346	17.5	145,528	17.5
Overprovision of tax in prior years	(567)	(0.2)	(7,488)	(0.9)
Profits and losses attributable to a jointly-controlled entity and associates	(22,682)	(7.9)	(19,347)	(2.3)
Income not subject to tax	(8,795)	(3.1)	(102,722)	(12.4)
Expenses not deductible for tax	1,590	0.6	5,288	0.6
Utilisation of tax losses brought forward from previous years	—	—	(1,017)	(0.1)
Tax losses not recognised	2,482	0.9	2,281	0.3
Others	38	—	(78)	—
Tax charge at the Group's effective rate	22,412	7.8	22,445	2.7
Represented by:				
Tax charge attributable to discontinued operations (<i>note 13</i>)	—		2,273	
Tax charge attributable to continuing operations reported in the consolidated income statement	22,412		20,172	
	22,412		22,445	

The share of tax attributable to associates amounting to HK\$13,627,000 (2006: HK\$13,692,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

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12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of HK\$32,543,000 (2006: HK\$26,297,000) which has been dealt with in the financial statements of the Company (*note 32*).

13. DISCONTINUED OPERATIONS

On 22 September 2006, Marvel Leader Investments Limited ("Marvel") and Thrivetrade Limited ("Thrivetrade") entered into an agreement, pursuant to which Marvel agreed to purchase and Thrivetrade agreed to sell the entire issued share capital of Starthigh International Limited ("Starthigh"). Marvel is a wholly-owned subsidiary of C C Land Holdings Limited ("C C Land") and Starthigh was a wholly-owned subsidiary of Thrivetrade, which was 100% owned by Mr. Cheung Chung Kiu, a director and substantial shareholder of the Company. The aggregate value of the consideration for the transaction was approximately HK\$3,317,553,000 which was principally satisfied by the issue of C C Land's shares (the "Consideration Shares") and the issue of convertible notes by C C Land. Further details are set out in the Company's circular dated 20 October 2006. As a result of the Consideration Shares and the subsequent conversion in full of the convertible notes issued by C C Land, the Company's interest in C C Land was passively diluted from 64.54% to 14.08%, resulting in a deemed disposal of the interest in C C Land, and consequently, C C Land ceased to be a subsidiary of the Group. Details of the disposal of C C Land Group are set out in *note 33(a)*.

Upon completion of the above deemed disposal, the manufacturing and sale of packaging and luggage business of C C Land were discontinued and the results of the discontinued operations for the year ended 31 December 2006 were as follows:

	<i>Notes</i>	<i>HK\$'000</i>
Revenue	5	648,908
Cost of sales		<u>(565,217)</u>
Gross profit		83,691
Other income and gains	5	9,970
Expenses		(58,989)
Finance costs	8	<u>(1,944)</u>
Profit before tax from the discontinued operations		32,728
Tax	11	<u>(2,273)</u>
Profit for the year from the discontinued operations		30,455
Gain on deemed disposal of subsidiaries	33(a)	<u>508,885</u>
		<u>539,340</u>
Attributable to:		
Equity holders of the Company		511,119
Minority interests		<u>28,221</u>
		<u>539,340</u>

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13. DISCONTINUED OPERATIONS (Continued)

The net cash flows incurred by the discontinued operations of C C Land for the year ended 31 December 2006 are as follows:

	<i>HK\$'000</i>
Operating activities	20,323
Investing activities	18,005
Financing activities	<u>1,710</u>
Net cash inflow	<u>40,038</u>
Earnings per share from the discontinued operations:	
Basic	5.78 cents
Diluted	<u>5.49 cents</u>

The calculations of basic and diluted earnings per share from the discontinued operations for the year ended 31 December 2006 were based on:

Profit attributable to ordinary equity holders of the Company from the discontinued operations	HK\$511,119,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	8,845,883,344
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	<u>9,319,702,994</u>

14. DIVIDEND

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed final – HK\$0.003 (2006: HK\$0.003) per ordinary share	<u>27,916</u>	<u>27,043</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. No interim dividend was declared in respect of both of the years.

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15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible note, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2007 HK\$'000	2006 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation:		
From continuing operations	265,282	269,804
From discontinued operations	—	511,119
	265,282	780,923
Interest on a convertible note	1,044	2,665
Profit attributable to ordinary equity holders of the Company before interest on convertible note	266,326	783,588
Attributable to:		
Continuing operations	266,326	272,469
Discontinued operations	—	511,119
	266,326	783,588
	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	9,137,080,820	8,845,883,344
Effect of dilution – weighted average number of ordinary shares:		
Convertible note	168,195,937	473,819,650
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	9,305,276,757	9,319,702,994

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16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles and yachts <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2007						
At 31 December 2006 and at 1 January 2007:						
Cost	12,828	4,773	5,509	2,887	18,863	44,860
Accumulated depreciation and impairment	(2,703)	(4,035)	(4,814)	(2,451)	(14,468)	(28,471)
Net carrying amount	10,125	738	695	436	4,395	16,389
At 1 January 2007, net of accumulated depreciation and impairment	10,125	738	695	436	4,395	16,389
Additions	2,378	1,058	562	27	746	4,771
Depreciation provided during the year	(284)	(440)	(374)	(121)	(1,290)	(2,509)
At 31 December 2007, net of accumulated depreciation and impairment	12,219	1,356	883	342	3,851	18,651
At 31 December 2007:						
Cost	15,206	5,831	6,071	2,914	16,595	46,617
Accumulated depreciation and impairment	(2,987)	(4,475)	(5,188)	(2,572)	(12,744)	(27,966)
Net carrying amount	12,219	1,356	883	342	3,851	18,651

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16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles and yachts	Plant and machinery	Moulds	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2006									
At 31 December 2005 and at 1 January 2006:									
Cost	109,603	4,773	23,962	2,614	18,225	34,713	9,986	190	204,066
Accumulated depreciation and impairment	(8,330)	(3,559)	(14,150)	(2,349)	(14,604)	(20,668)	(6,352)	—	(70,012)
Net carrying amount	101,273	1,214	9,812	265	3,621	14,045	3,634	190	134,054
At 1 January 2006, net of accumulated depreciation and impairment									
	101,273	1,214	9,812	265	3,621	14,045	3,634	190	134,054
Transfer from construction in progress	190	—	—	—	—	—	—	(190)	—
Additions	37,235	—	1,536	273	4,110	1,721	428	—	45,303
Disposal	—	—	(14)	—	—	—	—	—	(14)
Deemed disposal of subsidiaries (note 33(a))	(122,513)	—	(8,730)	—	(1,423)	(13,175)	(3,161)	—	(149,002)
Disposal of subsidiaries (note 34)	(3,758)	—	—	—	—	—	—	—	(3,758)
Depreciation provided during the year	(2,302)	(476)	(1,909)	(102)	(1,913)	(2,591)	(901)	—	(10,194)
At 31 December 2006, net of accumulated depreciation and impairment	10,125	738	695	436	4,395	—	—	—	16,389
At 31 December 2006:									
Cost	12,828	4,773	5,509	2,887	18,863	—	—	—	44,860
Accumulated depreciation and impairment	(2,703)	(4,035)	(4,814)	(2,451)	(14,468)	—	—	—	(28,471)
Net carrying amount	10,125	738	695	436	4,395	—	—	—	16,389

Certain of the Group's buildings were pledged to banks to secure banking facilities granted to the Group (note 37).

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17. INVESTMENT PROPERTIES

	Group	
	2007 HK\$'000	2006 HK\$'000
Carrying amount at 1 January	11,700	55,169
Disposal of subsidiaries (<i>note 34</i>)	—	(45,999)
Net gains from fair value adjustments	3,600	2,530
Carrying amount at 31 December	15,300	11,700

The Group's investment properties are situated in Hong Kong and are held under long term leases.

The revaluation of the above investment properties was carried out by Savills Valuation and Professional Services Limited, an independent firm of professionally qualified valuers, on an open market, existing use basis as at 31 December 2007. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a).

At 31 December 2007, the Group's investment properties with a carrying value of HK\$15,300,000 (2006: HK\$11,700,000) were pledged to a bank to secure banking facilities granted to the Group (*note 37*).

18. PREPAID LAND LEASE PAYMENTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Carrying amount at 1 January	74,281	146,470
Additions	25,779	—
Deemed disposal of subsidiaries (<i>note 33(a)</i>)	—	(69,303)
Amortised during the year	(1,563)	(2,886)
Carrying amount at 31 December	98,497	74,281
Current portion	(1,554)	(1,347)
Non-current portion	96,943	72,934

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18. PREPAID LAND LEASE PAYMENTS *(Continued)*

The Group's leasehold land is held under the following lease terms in Hong Kong:

	<i>HK\$'000</i>
Long term leases	83,750
Medium term leases	14,747
	<u>98,497</u>

Certain of the Group's leasehold land were pledged to banks to secure banking facilities granted to the Group (*note 37*).

19. GOODWILL

Group

	Total
	<i>HK\$'000</i>
Cost at 1 January 2006	35,297
Acquisition of additional interests in subsidiaries	587
Deemed disposal of subsidiaries (<i>note 33(a)</i>)	(35,884)
Cost and carrying amount at 31 December 2006, 1 January and 31 December 2007	<u>—</u>

20. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	105,759	105,759
Due from subsidiaries	1,768,833	1,764,754
	<u>1,874,592</u>	<u>1,870,513</u>

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20. INTERESTS IN SUBSIDIARIES *(Continued)*

The amounts due from subsidiaries, included in the interests in subsidiaries above, are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries. The carrying amounts of these accounts due from/to subsidiaries approximate to their fair values.

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2007	2006	
Big Brother Resources Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Property holding
Bonco Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Property holding
Bookman Properties Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Securities investment
Chase Create Investments Limited	Hong Kong	HK\$2	100	100	Property holding
Eastern Bloom Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Investment holding
Ferrex Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
First River Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding

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20. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2007	2006	
Funrise Limited	British Virgin Islands	US\$1	100	100	Investment holding
Joywell Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Kent Smart Investments Limited	Hong Kong	HK\$2	100	100	Property holding
Maxking Industries Limited	Hong Kong	HK\$2	100	100	Motor leasing
Maxlord Enterprises Limited	Hong Kong	HK\$2	100	100	Money lending
Megaspace Asia Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Property holding
New Wealth Limited	Hong Kong	HK\$2	100	100	Property investment
Regulator Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Senico Investments Limited	British Virgin Islands	US\$1	100	100	Trading of metal commodities and other materials
Supreme Sonice Limited	British Virgin Islands	US\$1	100	—	Property holding

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20. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2007	2006	
Time Lander Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Property holding
Top Eagle Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Yugang Finance Limited	Hong Kong	HK\$2	100	100	Treasury investment
Yugang International (B.V.I.) Limited	British Virgin Islands	US\$5	100	100	Investment holding
Yugang Management Limited	Hong Kong	HK\$2	100	100	Corporate management

Except for Yugang International (B.V.I.) Limited, all of the subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

21. INTERESTS IN ASSOCIATES

	Group	
	2007 HK\$'000	2006 HK\$'000
Share of net assets	1,019,915	899,310
Market value of listed shares	529,620	363,090

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21. INTERESTS IN ASSOCIATES *(Continued)*

Particulars of the principal associates are as follows:

Name	Place of incorporation/ registration and operations	Particulars of issued share held	Percentage of equity attributable to the Group		Principal activities
			2007	2006	
Y.T. Realty Group Limited	Bermuda	Ordinary shares of HK\$0.1 each	34.14	34.14	Investment holding
Benefit Plus Company Limited	Hong Kong	Ordinary shares of HK\$1 each	34.14	34.14	Property investment
Best View Limited	British Virgin Islands/ Hong Kong	Ordinary shares of US\$1 each	34.14	34.14	Property holding
E-Tech Services Limited	Hong Kong	Ordinary shares of HK\$1 each	34.14	34.14	Provision of property technical consultant services
Harson Investment Limited	Hong Kong	Ordinary shares of HK\$1 each	34.14	34.14	Property investment
Honway Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary shares of US\$1 each	34.14	34.14	Investment holding
Mainland Sun Ltd.	British Virgin Islands/PRC	Ordinary shares of US\$1 each	34.14	34.14	Property investment
Score Goal Investment Limited	Hong Kong	Ordinary shares of HK\$1 each	34.14	34.14	Property investment
Y.T. (China) Limited	Hong Kong/ PRC	Ordinary shares of HK\$1 each	34.14	34.14	Investment holding
Y.T. Finance Limited	Hong Kong	Ordinary shares of HK\$500 each	34.14	34.14	Finance vehicle

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21. INTERESTS IN ASSOCIATES (Continued)

Name	Place of incorporation/ registration and operations	Particulars of issued share held	Percentage of equity attributable to the Group		Principal activities
			2007	2006	
Y. T. Investment Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary shares of US\$1 each	34.14	34.14	Investment holding
Y.T. Investment Management Limited	British Virgin Islands/PRC	Ordinary shares of US\$1 each	34.14	34.14	Securities investment
Y. T. Properties International Limited	British Virgin Islands/ Hong Kong	Ordinary shares of US\$1 each	34.14	34.14	Investment holding
Y.T. Property Services Limited	Hong Kong	Ordinary shares of HK\$1 each	34.14	34.14	Property management
Y.T. Group Management Limited	Hong Kong	Ordinary shares of HK\$1 each	34.14	34.14	Provision of business management services

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

All the above associates have been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2007 HK\$'000	2006 HK\$'000
Assets	3,819,064	3,478,201
Liabilities	831,642	844,050
Revenue	116,520	99,473
Profit	328,563	288,088

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22. CONVERTIBLE DEBENTURES AND NOTES

	Group	
	2007 HK\$'000	2006 HK\$'000
Unsecured and interest-bearing	—	47,416
	—	47,416

At 31 December 2006, the Group held an unlisted convertible note which was issued by a listed company in Hong Kong. The convertible note conferred rights to the bearers to convert the whole or part of the outstanding principal amounts into ordinary shares of this listed company at a conversion price of HK\$0.305 per share in the defined periods. It could only be redeemed at their face values upon maturity to the extent of the amounts not previously converted. The convertible note bore an interest at a rate of 4% per annum and was stated at its fair value as at 31 December 2006.

All convertible notes, including those purchased during the year, were fully converted during the year.

23. LOANS RECEIVABLE

	Group	
	2007 HK\$'000	2006 HK\$'000
Unsecured:		
Non-current	1,000	1,000
Current	102,729	159,991
	103,729	160,991

The Group's loans receivable represent receivables arising from its money lending business and are stated at amortised cost at effective interest rates ranging from the Hong Kong dollar prime rate (the "Prime Rate") to 1% above the Prime Rate (2006: Prime Rate to 2% above the Prime Rate) per annum. The credit terms are normally less than one year. As the Group's loans receivable relate to a number of different borrowers during the year, the directors of the Company are of the opinion that there is no significant concentration of credit risk.

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24. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Listed equity investment in Hong Kong, at fair value	2,888,162	1,271,198
Unlisted investment in elsewhere, at fair value	27,884	—
	2,916,046	1,271,198

Particulars of the above listed equity investment in Hong Kong at the balance sheet date are as follows:

Name	Place of incorporation	Nominal value of issued and paid-up share capital	Percentage of ownership interest attributable to the Group	
			2007	2006
C C Land Holdings Limited	Bermuda	HK\$216,538,000	11.74	14.08

During the year, the fair value gain on the Group's available-for-sale investments recognised directly in equity amounted to HK\$1,617,544,000 (2006: HK\$356,258,000).

The fair value of the above listed equity investment is based on a quoted market price. This investment has no maturity date or coupon rate.

The above unlisted investment represented an overseas fund investment, the fair value of which is based on value quoted by the financial institution. This investment has no maturity date or coupon rate.

The market value of the above listed equity investment at the date of approval of these financial statements was approximately HK\$1,690,694,000.

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25. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007 HK\$'000	2006 HK\$'000
Listed equity investments, at market value:		
Hong Kong	600,919	586,429
Elsewhere	155,963	144,937
	756,882	731,366

The fair values of the above investments were determined based on quoted prices in the market at the balance sheet date.

The market value of the Group's equity investments at fair value through profit or loss at the date of approval of these financial statements was approximately HK\$542,834,000.

26. TRADE DEBTORS

The Group's trading terms with its customers are mainly on credit. It allows credit periods within 30 days to its customers. Overdue balances are reviewed regularly by management.

An aged analysis of the trade debtors at the balance sheet date, based on the payment due date, is as follows:

	Group					
	2007			2006		
	Neither past due nor impaired HK\$'000	Past due but not impaired HK\$'000	Total HK\$'000	Neither past due nor impaired HK\$'000	Past due but not impaired HK\$'000	Total HK\$'000
0 to 30 days	343	—	343	6,606	—	6,606
31 to 60 days	—	—	—	—	968	968
More than 60 days	—	4,784	4,784	—	—	—
	343	4,784	5,127	6,606	968	7,574

Notes to Financial Statements

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26. TRADE DEBTORS (Continued)

The movements in the provision for impairment of trade debtors were as follows:

	2007	Group
	HK\$'000	2006
		HK\$'000
At 1 January	—	5,298
Provision for impairment of trade debtors (note 6)	—	2,831
Deemed disposal of subsidiaries	—	(8,129)
At 31 December	—	—

Based on past experience, the directors are of the opinion that no impairment is necessary in respect of trade debtors that were past due but not impaired as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

27. TRADE CREDITORS

An aged analysis of the trade creditors at the balance sheet date, based on the invoice date, is as follows:

	2007	Group
	HK\$'000	2006
		HK\$'000
More than 60 days	1,046	977

The trade creditors are non-interest-bearing and are normally settled on 60 day terms.

28. INTEREST-BEARING BANK BORROWINGS

	2007	Group
	HK\$'000	2006
		HK\$'000
Current:		
Bank loan — secured	—	95,000
	—	95,000

The Group had no bank borrowings as at 31 December 2007.

The carrying amounts of the Group's bank borrowings as at 31 December 2006 approximated to their fair values.

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29. CONVERTIBLE NOTE

On 25 May 2004, the Company entered into an agreement with Timmex Investment Limited (“Timmex”) in relation to the subscription by Timmex for an interest-bearing convertible note amounting to HK\$70,000,000 (the “Note”). Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu, a director of the Company. The Note conferred the right on the note holder to convert the whole or part of the principal amount of the Note into ordinary shares of the Company at any time from 31 July 2004 (the date of issuance) for a period of three years, at conversion prices of HK\$0.075 per share in the first year, HK\$0.082 per share in the second year and HK\$0.089 per share in the third year (subject to adjustment). The Note matured for principal repayment on 31 July 2007. Interest on the Note was accrued from the date of issuance on a day-to-day basis at a rate of 3% per annum on the principal amount of the Note and was payable annually in arrears.

On 29 July 2005, 31 July 2006 and 31 July 2007, Timmex exercised the conversion right of the Note in an aggregate amount of HK\$20,325,000, HK\$23,780,000 and HK\$25,895,000, resulting in the issuance of 271,000,000, 290,000,000 and 290,955,056 new ordinary shares of the Company respectively (*note 31*).

The fair value of the liability component of the Note was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option amounting to HK\$62,380,000. The residual amount was assigned as the equity component and was included in shareholders’ equity amounting to HK\$7,620,000. The movements in the liability and equity components of the Note during the year are as follows:

	Liability component of the Note	Equity component of the Note
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2006	46,680	5,407
Conversion of part of the Note	(22,857)	(2,588)
	23,823	2,819
Interest expense (<i>note 8</i>)	2,665	—
Interest paid	(1,189)	—
	25,299	2,819
At 31 December 2006 and at 1 January 2007	25,299	2,819
Conversion of the remainder of the Note	(25,895)	(2,819)
	(596)	—
Interest expense (<i>note 8</i>)	1,044	—
Interest paid	(448)	—
	—	—
At 31 December 2007	—	—

The effective interest rate on the liability component of the Note is 7%.

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30. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Revaluation of properties <i>HK\$'000</i>	Depreciation allowance in excess of related depreciation <i>HK\$'000</i>	Loss available for offsetting against future taxable profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	682	3,152	(343)	3,491
Disposal of subsidiaries (<i>note 34</i>)	—	(87)	—	(87)
Deemed disposal of subsidiaries (<i>note 33(a)</i>)	—	(2,663)	1,997	(666)
Deferred tax charged/(credited) to the income statement during the year (<i>note 11</i>)	210	223	(2,194)	(1,761)
Gross deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2006 and 1 January 2007	892	625	(540)	977
Deferred tax charged/(credited) to the income statement during the year (<i>note 11</i>)	631	(35)	55	651
Gross deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2007	1,523	590	(485)	1,628

Notes to Financial Statements

31 December 2007

30. DEFERRED TAX *(Continued)*

For the purpose of the balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2007 HK\$'000	2006 <i>HK\$'000</i>
Net deferred tax liabilities recognised in the consolidated balance sheet	1,628	977

The Group has tax losses arising in Hong Kong of HK\$1,713,000 (2006: HK\$33,540,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that sufficient taxable profits will be available against which the tax losses can be utilised.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. SHARE CAPITAL

Shares

	2007 HK\$'000	2006 <i>HK\$'000</i>
<i>Authorised:</i> 50,000,000,000 (2006: 50,000,000,000) ordinary shares of HK\$0.01 each	500,000	500,000
<i>Issued and fully paid:</i> 9,305,276,756 (2006: 9,014,321,700) ordinary shares of HK\$0.01 each	93,053	90,143

Notes to Financial Statements

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31. SHARE CAPITAL (Continued)

A summary of the transactions involving the Company's issued ordinary share capital during the year is as follows:

	<i>Notes</i>	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006		8,724,321,700	87,243	858,931	946,174
Conversion of part of the convertible note	(a)	290,000,000	2,900	22,545	25,445
At 31 December 2006 and 1 January 2007		9,014,321,700	90,143	881,476	971,619
Conversion of the remainder of the convertible note	(b)	290,955,056	2,910	25,804	28,714
At 31 December 2007		9,305,276,756	93,053	907,280	1,000,333

Notes:

- (a) On 31 July 2006, part of the convertible note amounting to HK\$23,780,000 was converted into 290,000,000 shares of the Company at a conversion price of HK\$0.082 per share. Further details relating to the convertible note are set out in note 29.
- (b) On 31 July 2007, the remainder of the convertible note amounting to HK\$25,895,000 was converted into 290,955,056 shares of the Company at a conversion price of HK\$0.089 per share. Further details relating to the convertible note are set out in note 29.

Share options

At the special general meeting held on 29 April 2005, the Company adopted a share option scheme (the "Scheme"). Employees (including directors) of the Group are included in the eligible participants under the Scheme. A total of 901,432,170 shares will be available for issue under the Scheme, which represents 9.69% of the Company's issued share capital at the balance sheet date. Each participant cannot be entitled more than 1% of the total number of shares in issue in any 12-month period. The option shall end in any event not later than 10 years from the date of grant of option subject to the provision for early termination set out in the Scheme. The Scheme remains in force until 28 April 2015. No option has been granted under the Scheme since the adoption of the Scheme.

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32. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

Company

	Share premium account	Contributed surplus	Retained profits	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	858,931	839,108	4,898	1,702,937
Issue of shares upon conversion of part of the convertible note	31 22,545	—	—	22,545
Profit for the year	—	—	26,297	26,297
Proposed final dividend	14 —	—	(27,043)	(27,043)
At 31 December 2006 and at 1 January 2007	881,476	839,108	4,152	1,724,736
Issue of shares upon conversion of part of the convertible note	31 25,804	—	—	25,804
Profit for the year	—	—	32,543	32,543
Proposed final dividend	14 —	—	(27,916)	(27,916)
At 31 December 2007	907,280	839,108	8,779	1,755,167

The contributed surplus of the Company originally represented the excess of the net asset values of the subsidiaries acquired over the nominal value of the Company's shares issued for their acquisition at the time of the reorganisation in preparation for the listing of the Company's shares in 1993. Under the Bermuda Companies Act 1981 (as amended), the contributed surplus may be distributed to shareholders under certain circumstances.

Notes to Financial Statements

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33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Deemed disposal of subsidiaries

	Notes	2006 HK\$'000
Net assets disposed of:		
Property, plant and equipment	16	149,002
Prepaid land lease payments	18	69,303
Goodwill	19	35,884
Interests in associates		38,921
Convertible debentures and notes		32,903
Other assets		781
Investments at fair value through profit or loss		37,647
Inventories		84,067
Tax recoverable		431
Trade debtors		156,209
Other debtors, deposits and prepayments		12,464
Bills receivable		7,152
Pledged time deposits		3,073
Time deposits		181,252
Cash and bank balances		55,168
Trade creditors		(130,473)
Loans from minority shareholders		(8,000)
Accrued expenses		(16,492)
Customers' deposits received		(12,047)
Tax payable		(12,872)
Interest-bearing bank borrowings		(40,795)
Deferred tax liabilities	30	(666)
Consideration payable on acquisition of associates		(3,000)
Consideration payable on acquisition of subsidiaries		(5,000)
Exchange fluctuation reserve		(117)
Minority interests		(228,740)
		<u>406,055</u>
Gain on deemed disposal of subsidiaries		<u>508,885</u>
Reclassified to available-for-sale investment		<u>914,940</u>

An analysis of the net decrease in cash and cash equivalents in respect of the deemed disposal of subsidiaries is as follows:

	2006 HK\$'000
Time deposits	181,252
Cash and bank balances	55,168
	<u>236,420</u>

Notes to Financial Statements

31 December 2007

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Major non-cash transactions

- (i) During the year, principal sum of the convertible note issued by the Company amounting to HK\$25,895,000 (2006: HK\$23,780,000) was converted into 290,955,056 (2006: 290,000,000) shares of the Company at a conversion price of HK\$0.089 (2006: HK\$0.082) per share.
- (ii) During the year, the Group's investments in convertible notes amounting to HK\$124,200,000 (2006: HK\$35,000,000) were converted into ordinary shares of certain companies listed on the Stock Exchange.
- (iii) In 2006, the Group's investments at fair value through profit or loss with a carrying value of HK\$21,250,000 were exchanged for cash amounting to HK\$4,825,000 and a convertible note issued by a company listed on the Stock Exchange with an initial fair value of approximately HK\$33,654,000.

(c) Restricted cash and cash equivalent balances

Certain of the Group's time deposits are pledged to a bank to secure the banking facilities granted to the Group, as further explained in note 37.

Notes to Financial Statements

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34. DISPOSAL OF SUBSIDIARIES

	Notes	2006 HK\$'000
Net assets disposed of:		
Property, plant and equipment	16	3,758
Investment properties	17	45,999
Investment in a jointly-controlled entity		3,310
Available-for-sale equity investment		20,000
Other assets		5,960
Other debtors, deposits and prepayments		16
Tax payable		(59,100)
Due to group companies, net		(43,689)
Deferred tax liabilities	30	(87)
		(23,833)
Assignment of amounts due to group companies, net		43,689
		19,856
Gain on disposal of subsidiaries	5	36,144
		56,000
Satisfied by:		
Cash		56,000

During the year, the Group did not have any disposal of subsidiaries.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (*note 17*) under operating lease arrangements, with leases negotiated for terms of two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Within one year	800	763
In the second to fifth years, inclusive	466	465
	1,266	1,228

Notes to Financial Statements

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35. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. The leases for the office properties are negotiated for a term of three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007	Group
	HK\$'000	2006 HK\$'000
Within one year	581	996
In the second to fifth years, inclusive	—	581
	581	1,577

36. COMMITMENTS

At the balance sheet date, neither the Group nor the Company have any significant commitments.

37. BANKING FACILITIES

At the balance sheet date, the Group's banking facilities were secured by:

- (a) a pledge of the Group's time deposits of HK\$9,206,000 (2006: HK\$8,754,000);
- (b) the Group's investment properties and certain leasehold land and buildings with an aggregate carrying value of HK\$60,938,000 (2006: HK\$58,357,000); and
- (c) corporate guarantees issued by the Company.

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38. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	518,080	518,080

No banking facilities (2006: HK\$95,000,000) were utilised at the balance sheet date.

39. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

	Notes	Group	
		2007 HK\$'000	2006 HK\$'000
Rental expenses for office premises paid to a substantial shareholder	(i)	996	996
Interest expense paid to a related company	(ii)	448	1,189
Sales of goods to a minority shareholder of a subsidiary		—	13,431
Purchase of an additional interest in a subsidiary from a minority shareholder of a subsidiary		—	990

Notes to Financial Statements

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39. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

- (i) The rental expenses were charged at cost, based on the floor area occupied by the Group in respect of the office premises rented by Chongqing Industrial Limited (“Chongqing”) from an independent third party. Mr. Cheung Chung Kiu, a director of the Company, has a beneficial interest in Chongqing, which is a substantial shareholder of the Company. This transaction also constituted a connected transaction of the Company under the Listing Rules.
- (ii) The interest expense paid to a related company was in respect of the convertible note issued by the Company to Timmex as detailed in note 29. The transaction constituted a connected transaction of the Company under the Listing Rules.
- (b) In 2006, the Group had a deemed disposal of subsidiaries as detailed in note 13. The transaction constituted connected transactions of the Company under the Listing Rules.
- (c) Compensation of key management personnel of the Group:

	2007	2006
	HK\$'000	HK\$'000
Short term employee benefits	21,373	20,238
Post-employment benefits	60	72
Long term employee benefits	135	97
Total compensation paid to key management personnel	21,568	20,407

Further details of directors' emoluments are included in note 9.

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40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007

Financial assets

	Group			Total HK\$'000
	Financial assets at fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	
Loans receivable (note 23)	—	103,729	—	103,729
Available-for-sale investments	—	—	2,916,046	2,916,046
Trade debtors	—	5,127	—	5,127
Financial assets included in prepayments, deposits and other receivables	—	16,745	—	16,745
Equity investments at fair value through profit or loss	756,882	—	—	756,882
Pledged time deposits	—	9,206	—	9,206
Time deposits	—	50,243	—	50,243
Cash and bank balances	—	132,595	—	132,595
	756,882	317,645	2,916,046	3,990,573

2007

Financial liabilities

	Group Financial liabilities at amortised cost HK\$'000
Trade creditors	1,046
Other payables	3,995
	5,041

Notes to Financial Statements

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40. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2006

Financial assets

	Financial assets at fair value through profit or loss <i>HK\$'000</i>	Group Loans and receivables <i>HK\$'000</i>	Available- for-sale financial assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
Loans receivable <i>(note 23)</i>	—	160,991	—	160,991
Available-for-sale investments	—	—	1,271,198	1,271,198
Trade debtors	—	7,574	—	7,574
Financial assets included in prepayments, deposits and other receivables	—	13,837	—	13,837
Equity investments at fair value through profit or loss	731,366	—	—	731,366
Convertible debentures and notes	47,416	—	—	47,416
Pledged time deposits	—	8,754	—	8,754
Time deposits	—	119,217	—	119,217
Cash and bank balances	—	10,786	—	10,786
	778,782	321,159	1,271,198	2,371,139

Notes to Financial Statements

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40. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2006

Financial liabilities

	Group
	Financial liabilities at amortised cost <i>HK\$'000</i>
Trade creditors	977
Other payables	3,076
Convertible note	25,299
Interest-bearing bank borrowings	95,000
	<u>124,352</u>

	Company	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Financial assets — loans and receivables		
Cash and bank balances	1,421	1,462
Financial liabilities — at amortised cost		
Amounts included in other payables and accrued expenses	643	965
Convertible note	—	25,299
	643	26,264

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include equity investments, investments in convertible notes, loans receivable, trade debtors, trade creditors, bank loans and overdrafts and short-term deposits and cash and cash equivalents. Details of the major financial instruments and the Group's accounting policies in relation to them are disclosed in note 2.4 to the financial statements.

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

Interest rate risk

The Group does not have any significant exposure to the risk of changes in market interest rates, and therefore it does not use derivative financial instruments to hedge its debt obligations and receivables.

The Group receives interest income principally from its portfolio of loans receivable and short-term bank deposits with an aggregate amount of HK\$295.8 million as at 31 December 2007. Assuming that the balances are held at a constant level and there is an average decrease of 75 basis points for the year ending 31 December 2008, the interest income of the Group will be decreased by HK\$2.2 million. No significant cash flow interest rate risk existed for the year ended 31 December 2007 as there was no expected change in market interest rates as at 31 December 2006.

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

The Group has transactional currency exposure as all the sales and purchases of goods were denominated in United States dollars whilst 16% (2006: 16%) of the operating expenses for the year were denominated in United States dollars.

The Group has translational currency exposure because 32% (2006: 79.6%) of the cash and bank balances were denominated in United States dollars and 21% (2006: 20%) of the equity investments at fair value through profit or loss were denominated in Singapore dollars.

The Group considers that the above currency exposure is insignificant as the United States dollar is pegged to the Hong Kong dollar and the equity investments at fair value through profit or loss denominated in Singapore dollars only represented approximately 3.1% of the Group's net asset. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the Singapore dollar exchange rate, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in Singapore dollar exchange rate %	Increase/ (decrease) in profit before tax HK\$'000
2007		
If Hong Kong dollar weakens against Singapore dollar	7.5%	11,697
If Hong Kong dollar strengthens against Singapore dollar	(1.5%)	(2,339)
2006		
If Hong Kong dollar weakens against Singapore dollar	5.0%	7,247
If Hong Kong dollar strengthens against Singapore dollar	(1.0%)	(1,449)

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade and other debtors are monitored on an ongoing basis to ensure follow-up action is taken to recover overdue debts and the Group's exposure to bad debts is not significant. The Group reviews the recoverable amount of each individual debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The maximum exposure to credit risk of the Group at the balance sheet date arises mainly from trade debtors with a balance of HK\$4.78 million past due but not impaired (2006: HK\$0.97 million).

The Group has established a credit committee (the "Committee") to manage the credit risk with respect to the loans receivable of the Group. The Committee reviews the credit standing and assesses credit risk exposures of each borrower. In order to mitigate this risk, the Group has formulated a credit policy governing the control of credit risk. In this regard, the directors consider that the credit risk is significantly reduced and controlled.

Price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from equity investments at fair value through profit or loss and available-for-sale investments. The Group's listed investments are listed on either the Hong Kong Stock Exchange or the Stock Exchange of Singapore, and are valued at quoted market prices at the balance sheet date.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the balance sheet date, and their respective highest and lowest points during the year were as follows:

	31 December 2007	High/low 2007	31 December 2006	High/low 2006
Hong Kong — Hang Seng Index	27,813	31,958/ 18,659	19,965	20,049/ 14,844
Singapore — Straits Times Index	3,482	3,906/ 2,932	2,986	2,991/ 2,278

The following table demonstrates the sensitivity to change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date.

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31 December 2007

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Price risk (Continued)

The sensitivity analysis is made based on a reasonably possible 6.5% decrease in Hang Seng Index of Hong Kong (2006: 10% increase) and 4% decrease in Straits Times Index of Singapore (2006: 6% increase) anticipated as at the year end date and an estimated value of beta of the investment portfolios of the Group.

	Carrying amount of equity investments <i>HK\$'000</i>	Decrease in profit before tax <i>HK\$'000</i>	Decrease in other components of equity <i>HK\$'000</i>
2007			
Equity investments at fair value through profit or loss listed in:			
Hong Kong	600,919	(34,733)	—
Singapore	155,963	(5,292)	—
Available-for-sale investment listed in Hong Kong, excluding overseas	2,888,162	—	(482,580)
Total		(40,025)	(482,580)
	Carrying amount of equity investments <i>HK\$'000</i>	Increase in profit before tax <i>HK\$'000</i>	Increase in other components of equity <i>HK\$'000</i>
2006			
Investments at fair value through profit or loss listed in:			
Hong Kong	586,429	52,147	—
Singapore	144,937	7,377	—
Available-for-sale investment listed in Hong Kong	1,271,198	—	326,774
Total		59,524	326,774

The Group's management manages the above exposure by maintaining a well-diversified portfolio with different risk profiles.

Notes to Financial Statements

31 December 2007

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible notes and other interest-bearing loans.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

	2007			Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	
Trade creditors	1,046	—	—	1,046
Other payables	3,995	—	—	3,995
	5,041	—	—	5,041

	2006			Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	
Trade creditors	977	—	—	977
Other payables	3,076	—	—	3,076
Convertible notes	—	—	25,299	25,299
Interest-bearing bank borrowings	—	95,000	—	95,000
	4,053	95,000	25,299	124,352

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

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

Notes to Financial Statements

31 December 2007

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by equity attributable to equity holders of the Company. Net debt includes interest-bearing bank borrowings, trade creditors, other payables, accrued expenses and customers' deposits received, less cash and cash equivalents, and excludes discontinued operations. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2007	2006
	HK\$'000	HK\$'000
Interest-bearing bank borrowings	—	95,000
Trade creditors	1,046	977
Other payables	3,995	3,076
Accrued expenses	20,139	21,588
Customers' deposits received	348	127
Less: Cash and cash equivalents	(182,838)	(130,003)
Net debt	(157,310)	(9,235)
Equity attributable to equity holders of the Company	5,098,106	3,217,248
Gearing ratio	Nil	Nil

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 March 2008.

Five Year Financial Summary

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

RESULTS	Year ended 31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
CONTINUING OPERATIONS					
REVENUE	107,819	122,847	(11,098)	138,323	25,601
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	158,079	179,417	(135,884)	206,045	75,731
Share of profits/(losses) of a jointly-controlled entity	—	(359)	(910)	(725)	643
Share of profits of associates	129,615	110,918	90,145	43,132	18,288
PROFIT/(LOSS) BEFORE TAX	287,694	289,976	(46,649)	248,452	94,662
Tax	(22,412)	(20,172)	(741)	(5,368)	(894)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	265,282	269,804	(47,390)	243,084	93,768
DISCONTINUED OPERATIONS					
Profit/(loss) for the year from discontinued operations	—	539,340	37,247	(2,740)	24,157
PROFIT/(LOSS) FOR THE YEAR	265,282	809,144	(10,143)	240,344	117,925
Attributable to:					
Equity holders of the Company	265,282	780,923	(26,579)	223,953	107,734
Minority interests	—	28,221	16,436	16,391	10,191
	265,282	809,144	(10,143)	240,344	117,925

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Property, plant and equipment	18,651	16,389	134,054	99,036	99,809
Prepaid land lease payments	96,943	72,934	143,564	123,527	118,633
Interests in associates	1,019,915	899,310	839,451	659,930	618,936
Available-for-sale investments	2,916,046	1,271,198	20,000	70,000	—
Other non-current assets	28,660	72,476	168,047	31,595	15,936
Current assets	1,076,755	1,054,697	1,292,381	1,448,720	1,404,390
Current liabilities	(57,236)	(168,779)	(246,002)	(129,938)	(301,162)
Net current assets	1,019,519	885,918	1,046,379	1,318,782	1,103,228
Non-current liabilities	(1,628)	(977)	(58,171)	(66,190)	(783)
Minority interests	—	—	(209,306)	(223,394)	(158,569)
Equity attributable to equity holders of the Company	5,098,106	3,217,248	2,084,018	2,013,286	1,797,190