

# YUGANG

YUGANG INTERNATIONAL LIMITED

Stock Code: 613

# YUGANG



Interim Report 2008

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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, Carmelo  
 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  
 26 Harbour Road  
 Wanchai  
 Hong Kong

### Website Address

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

### Stock Code

613

## Management Discussion and Analysis

On behalf of the board (the "Board") of directors (the "Directors") of Yugang International Limited (the "Company"), I am pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2008.

### Results

The Group recorded a loss attributable to equity shareholders of the Company of HK\$312.8 million for the six months ended 30 June 2008, as compared with the net profit of HK\$260.3 million in the last corresponding period. Basic loss per share was 3.36 HK cents, whereas basic earnings per share of 2.89 HK cents were recorded for the last corresponding period.

### Business Review

During the first half of 2008, the economy of Hong Kong was surrendered by various uncertainties including the U.S. sub-prime mortgage crisis and the subsequent liquidity issue in the finance sector, the exorbitant oil prices and macro economic controls in Mainland China. Local stock market sentiment and investor confidence were substantially eroded as Hang Seng Index fell by approximately 11,500 points from its historical high of around 32,000 in October 2007 to the lowest of approximately 20,500 in March 2008. The Group's treasury investment was adversely affected to record a substantial unrealized loss on listed securities investment for the six months ended 30 June 2008. However, benefited by strong consumer spending of local market, the Group's other business segments including property investment and infrastructure investment continued to perform satisfactorily during the period.

### Property Investment Business

Major investment properties of the Group are held by an associate of the Group, Y.T. Realty Group Limited ("Y.T. Realty"), the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The core properties include Century Square and Prestige Tower which situate in the core of Central District and Tsimshatsui, collectively received rental income of HK\$55.1 million for the six months ended 30 June 2008, representing an increase of 8.0% from the last corresponding period. These properties were repackaged in prior years to predominantly commercial and retail to meet the trend of lifestyle hub in Central and Tsimshatsui. The property repositioning strategy successfully enhanced the property value, increased the rental income and decreased the vacancy rate. The capital appreciation of the properties for the period was HK\$121.3 million, indicating our strength in property value enhancement.

The net profit after tax and minority interests of Y.T. Realty for the period was HK\$213.8 million, representing an increase of HK\$44.1 million or 26% from the last corresponding period.

## Management Discussion and Analysis

### Infrastructure Business

The Group's infrastructure business was carried on indirectly through The Cross-Harbour (Holdings) Limited ("Cross-Harbour"), the shares of which are listed on the main board of the Stock Exchange. Cross-Harbour currently holds a substantial equity interest in Western Harbour Tunnel Company Limited, which continuously generates a steady stream of toll revenue. The net profit after tax and minority interests of Cross-Harbour for the period was HK\$170.2 million, representing an increase of HK\$62.2 million or 57.6% from the last corresponding period.

### Treasury Investment Business

The Group's securities investment under the treasury investment segment was primarily held for medium to long term and the volatility of stock market might inevitably affect the unrealized gain or loss of the Group. Since 2006, the treasury investment business of the Group had performed very well due to the booming of local stock market and thereby recorded substantial unrealized gain on the listed securities investment for both the financial year of 2006 and 2007. However, due to the volatility of local stock market during the first half of 2008, the Group's treasury investment segment was adversely impacted to record a loss of HK\$357.4 million for the period including an unrealized loss of HK\$332.0 million on the listed securities investment.

### Prospect

It is anticipated that global credit market will remain tight and US economy might fall into recession, the effect of which may eventually be spread to Asia including Hong Kong and Mainland China. Given the economic uncertainty and volatility of the stock market, the Group will adopt a cautious and conservative approach in managing its treasury investment.

On the other hand, the constant generation of rental incomes from property investment business and toll revenue derived from the infrastructure business will continuously provide a steady contribution to the Group's operating profit.

Looking ahead, global economic uncertainties will erode the investor confidence and market sentiment. The Group will constantly adhere to maintaining sound financial management in dealing with the upcoming challenges. Benefited by the Group's strong liquidity and financial resources, the future economic uncertainty may offer good opportunity of expansion through project investment or strategic equity acquisition.

# Management Discussion and Analysis

## Financial Review

The Group's revenue for the period was HK\$6.7 million, representing a significant decrease of HK\$172.1 million or 96.3% from the last corresponding period. It was mainly attributable to a loss on disposal of securities investment of HK\$4.6 million as compared with a gain of HK\$113.8 million in the last corresponding period.

As at 30 June 2008, the consolidated net asset value of the Group was HK\$3,097.2 million and the consolidated net asset value per share was HK\$0.333. The Group's total assets and total liabilities were HK\$3,141.3 million and HK\$44.1 million respectively.

## Liquidity and Financial Resources

As at 30 June 2008, the Group had a high level of liquid assets including cash and cash equivalents of HK\$109.3 million and securities investment of HK\$546 million totaling HK\$655.3 million, representing HK\$0.07 per ordinary share and 21.2% of the consolidated net asset value. The Group maintained a very strong liquidity position as indicated by a high current ratio of 16.3. In addition, the Group had obtained sufficient banking facilities to meet the future funding needs including working capital and capital expenditure.

As at 30 June 2008, the Group did not have any bank borrowings and therefore, the gearing level is negligible. The Group did not have any material contingent liabilities.

## Exchange Risk

Except certain securities investment was denominated in foreign currencies which represented approximately 5.1% 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.

## Pledge of Assets

As at 30 June 2008, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$66.1 million and time deposits of approximately HK\$9.3 million to secure the general banking facilities granted to the Group.

## Management Discussion and Analysis

### Employees and Remuneration Policy

The Group employed a total of 40 staffs as at 30 June 2008. Employees' remuneration and remuneration policies were substantially the same as disclosed in the 2007 Annual Report without significant changes.

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

### Share Options

The share option scheme of the Company was adopted on 29 April 2005. No share option was granted under the share option scheme as at 30 June 2008.

### Significant Investments

The Group's equity investment in C C Land Holdings Limited ("C C Land", the shares of which are listed on the Stock Exchange) was classified as an available-for-sale investment and stated at fair value of HK\$1,233.1 million as at 30 June 2008 and recorded a fair value loss of HK\$1,655.1 million for the period. Such loss was recorded in an equity reserve account and hence, significantly decreased the shareholders' equity of the Group by 32.5 per cent. The Group received a dividend income of HK\$12.7 million from C C Land for the period.

The Group maintained its strategic investment in equity interests of Y.T. Realty with a carrying value of HK\$1,049.7 million as at 30 June 2008. The net profit after tax and minority interests of Y.T. Realty for the period was HK\$213.8 million.

### Interim Dividend

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

## Corporate Governance

### Compliance with the Code on Corporate Governance Practice

The Board is committed to high standards of corporate governance. Throughout the accounting period for the six months ended 30 June 2008, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing The Listing of Securities on the Stock Exchange (the "Listing Rules").

### Model Code for Securities Transactions by Directors

The Company has adopted the Code for Securities Transactions by Directors of the Company ("Securities Dealings Code") on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Listing Rules.

Following specific enquiry by the Company, all Directors confirmed that they had, throughout the six months ended 30 June 2008, complied with the required standard set out in the Model Code and the Securities Dealings Code.

### Audit Committee

The Company established the audit committee in compliance with Rule 3.21 of the Listing Rules. The audit committee had discussed with the management and the external auditors on the accounting standards, principles and policies adopted by the Group, considered and reviewed the Company's unaudited consolidated financial statements for the six months ended 30 June 2008.



## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 30 June 2008, the interests and short positions of the Directors and chief executives of the Company and their associates in the shares, underlying shares and 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 pursuant to the Model Code were as follows:

### (i) Long positions in ordinary shares of the Company

Name of Director	Nature of interest	Number of ordinary shares held	Percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (note 1)	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 ordinary shares of associated corporations

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

## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

*Notes:*

- (1) Out of 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.

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

Save as disclosed above, as at 30 June 2008, none of the Directors and chief executives of the Company and their respective associates had registered an interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded in the register pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Discloseable Interests of Shareholders Under the SFO

As at 30 June 2008, the following persons had an interest of 5% or more in the shares or underlying shares of the Company which were recorded in the register as required to be kept by the Company under section 336 of the SFO, or which were required to be notified to the Company and the Stock Exchange:

### Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares/ underlying 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	4,099,709,740	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 of Palin Discretionary Trust, a family discretionary trust, the beneficiaries included Mr. Cheung Chung Kiu and his family.
- (4) Out of 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 30 June 2008, there was no other person who had registered an interest or short positions in the shares or underlying shares of the Company and its associated corporations as required to be recorded in the register pursuant to section 336 of the SFO, or which were required to be notified to the Company and the Stock Exchange.

## Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the six months ended 30 June 2008.

## Appreciation

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

By order of the Board  
 Yugang International Limited  
 Yuen Wing Shing  
 Managing Director

Hong Kong, 12 September 2008

## Consolidated Income Statement

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<b>REVENUE</b>	4	6,663	178,840
Cost of sales		(2,304)	(50,289)
Gross profit		4,359	128,551
Other income and gains	4	20,073	125,450
Administrative expenses		(41,771)	(35,124)
Other expenses	5	(332,080)	—
Finance costs	6	(465)	(2,558)
Share of results of associates		37,926	66,243
<b>PROFIT/(LOSS) BEFORE TAX</b>	7	(311,958)	282,562
Tax	8	(881)	(22,247)
<b>PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>(312,839)</b>	<b>260,315</b>
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	10		
Basic		<b>(3.36) HK cents</b>	2.89 HK cents
Diluted		<b>N/A</b>	2.81 HK cents

# Consolidated Balance Sheet

30 June 2008

	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	17,535	18,651
Investment properties		21,000	15,300
Prepaid land lease payments		96,117	96,943
Interests in associates		1,049,730	1,019,915
Loans receivable		1,000	1,000
Available-for-sale investments		1,267,663	2,916,046
Other assets		12,360	12,360
Total non-current assets		<u>2,465,405</u>	<u>4,080,215</u>
<b>CURRENT ASSETS</b>			
Listed equity investments at fair value through profit or loss		546,008	756,882
Loans receivable		1,000	102,729
Trade debtors	12	4,418	5,127
Other debtors, deposits and prepayments		4,371	18,419
Prepaid land lease payments		1,554	1,554
Pledged time deposits		9,314	9,206
Time deposits		45,424	50,243
Cash and bank balances		63,834	132,595
Total current assets		<u>675,923</u>	<u>1,076,755</u>
<b>CURRENT LIABILITIES</b>			
Trade creditors	13	1,121	1,046
Tax payable		31,708	31,708
Other payables		3,341	3,995
Accrued expenses		5,271	20,139
Customers' deposits received		148	348
Total current liabilities		<u>41,589</u>	<u>57,236</u>
<b>NET CURRENT ASSETS</b>		<u>634,334</u>	<u>1,019,519</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,099,739</u>	<u>5,099,734</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		2,509	1,628
Net assets		<u>3,097,230</u>	<u>5,098,106</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital		93,053	93,053
Reserves		1,981,562	3,669,599
Retained profits		1,022,615	1,335,454
Total equity		<u>3,097,230</u>	<u>5,098,106</u>

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Attributable to equity holders of the Company									
	Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Equity component of convertible notes (Unaudited) HK\$'000	Other reserves (Unaudited) HK\$'000	Available-for-sale investments revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed final dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2008	93,053	907,280*	760,799*	(419)*	—	221*	1,973,802*	1,335,454	27,916*	5,098,106
Share of changes in reserves of associates	—	—	—	—	—	78	—	—	—	78
Fair value changes of available-for-sale investments	—	—	—	—	—	—	(1,660,199)	—	—	(1,660,199)
Loss for the period	—	—	—	—	—	—	—	(312,839)	—	(312,839)
Dividend paid (note 9)	—	—	—	—	—	—	—	—	(27,916)	(27,916)
<b>At 30 June 2008</b>	<b>93,053</b>	<b>907,280*</b>	<b>760,799*</b>	<b>(419)*</b>	<b>—</b>	<b>299*</b>	<b>313,603*</b>	<b>1,022,615</b>	<b>—</b>	<b>3,097,230</b>
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
Share of changes in reserves of associates	—	—	—	—	—	363	—	—	—	363
Fair value changes of available-for-sale investments	—	—	—	—	—	—	429,666	—	—	429,666
Profit for the period	—	—	—	—	—	—	—	260,315	—	260,315
Dividend paid (note 9)	—	—	—	—	—	—	—	—	(27,043)	(27,043)
<b>At 30 June 2007</b>	<b>90,143</b>	<b>881,476</b>	<b>760,799</b>	<b>(419)</b>	<b>2,819</b>	<b>1,404</b>	<b>785,924</b>	<b>1,358,403</b>	<b>—</b>	<b>3,880,549</b>

\* These reserve accounts comprise the consolidated reserves of HK\$1,981,562,000 (31 December 2007: HK\$3,669,599,000) in the interim consolidated balance sheet.

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	For the six months ended 30 June	
	2008 (Unaudited) <i>HK\$'000</i>	2007 (Unaudited) <i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(55,067)	322,314
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	9,868	(48,318)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	<u>(28,381)</u>	<u>(123,888)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(73,580)	150,108
Cash and cash equivalents at beginning of period	<u>182,838</u>	<u>130,003</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>109,258</u></u>	<u><u>280,111</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	63,834	12,763
Non-pledged time deposits	<u>45,424</u>	<u>267,348</u>
	<u><u>109,258</u></u>	<u><u>280,111</u></u>

# Notes to Condensed Consolidated Financial Statements

30 June 2008

## 1. Corporate Information

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2008 were authorised to issue by the Board on 12 September 2008.

Yugang International Limited is a company incorporated in Bermuda with limited liability whose shares are publicly traded on the Stock Exchange. The principal activities of the Group are described in Note 3.

## 2. Basis of Preparation and Accounting Policies

The unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") No. 34 "Interim Financial Reporting", issued by The Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Appendix 16 to the Listing Rules.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2007.

The accounting policies and methods of computation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2007 and in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs, and Interpretations) issued by HKICPA, except that the Group has in the current period applied, for the first time the following new HKFRS. The adoption of this new HKFRS has no significant impact on the Group's unaudited interim condensed consolidated financial statements.

HK(IFRIC)-Int 11

HKFRS 2 – Group and Treasury Share Transactions



# Notes to Condensed Consolidated Financial Statements

30 June 2008

## 2. Basis of Preparation and Accounting Policies *(continued)*

The Group has not applied the following new and revised HKFRSs which were issued but not yet effective, in the unaudited interim condensed consolidated financial statements.

HKFRS 2 Amendments	Share-based Payment – Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009

The Group expects that while the adoption of the HKAS 1 and HKFRS 8 may result in new or amended disclosures, these new/revised HKFRSs will not have any significant impact on the Group's financial statements in the period of initial application.

# Notes to Condensed Consolidated Financial Statements

30 June 2008

## 3. Segment Information

During the six months ended 30 June 2008, the Group comprised the following operating segments:

- (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 of rental income from investment properties and the holding of available-for-sale investments.

An analysis by principal activity and geographical area of operations of the Group's turnover and segment results are summarised as follows:

### (a) Business segments

The following tables present revenue and profit/(loss) information regarding the Group's business segments for the six months ended 30 June 2008 and 2007, respectively.

For the six months ended 30 June 2008

	Trading of scrap metals and other materials (Unaudited) HK\$'000	Treasury investment (Unaudited) HK\$'000	Property and other investments (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
<b>Segment revenue:</b>				
Revenue from external customers	2,350	4,313	—	6,663
Other revenue	—	—	13,270	13,270
<b>Total revenue</b>	<b>2,350</b>	<b>4,313</b>	<b>13,270</b>	<b>19,933</b>
<b>Segment results</b>	<b>(2,016)</b>	<b>(357,405)</b>	<b>18,609</b>	<b>(340,812)</b>
Unallocated expenses, net				(9,511)
Interest income on bank deposits				904
Finance costs				(465)
Share of results of associates	—	—	37,926	37,926
<b>Loss before tax</b>				<b>(311,958)</b>
Tax				(881)
<b>Loss for the period</b>				<b>(312,839)</b>

## Notes to Condensed Consolidated Financial Statements

30 June 2008

3. Segment Information *(continued)***(a) Business segments** *(continued)*

For the six months ended 30 June 2007

	Trading of scrap metals and other materials (Unaudited) <i>HK\$'000</i>	Treasury investment (Unaudited) <i>HK\$'000</i>	Property and other investments (Unaudited) <i>HK\$'000</i>	Consolidated (Unaudited) <i>HK\$'000</i>
<b>Segment revenue:</b>				
Revenue from external customers	52,562	126,278	—	178,840
Other revenue	—	—	13,094	13,094
	<u>52,562</u>	<u>126,278</u>	<u>13,094</u>	<u>191,934</u>
Total revenue	<u>52,562</u>	<u>126,278</u>	<u>13,094</u>	<u>191,934</u>
<b>Segment results</b>	<u>2</u>	<u>211,058</u>	<u>14,405</u>	225,465
Unallocated expenses, net				(10,486)
Interest income on bank deposits				3,898
Finance costs				(2,558)
Share of results of associates	—	—	66,243	66,243
				<u>282,562</u>
Profit before tax				282,562
Tax				(22,247)
				<u>260,315</u>
Profit for the period				<u>260,315</u>

# Notes to Condensed Consolidated Financial Statements

30 June 2008

## 3. Segment Information *(continued)*

### (b) Geographical segments

The following tables present revenue information regarding the Group's geographical segments for the six months ended 30 June 2008 and 2007, respectively.

	The PRC			Consolidated (Unaudited) HK\$'000
	Hong Kong (Unaudited) HK\$'000	Elsewhere in the PRC (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	
For the six months ended 30 June 2008				
<b>Segment revenue:</b>				
Revenue from external customers	4,313	2,350	—	6,663
Other revenue	13,156	—	114	13,270
Total revenue	<u>17,469</u>	<u>2,350</u>	<u>114</u>	<u>19,933</u>
For the six months ended 30 June 2007				
<b>Segment revenue:</b>				
Revenue from external customers	126,278	52,562	—	178,840
Other revenue	13,094	—	—	13,094
Total revenue	<u>139,372</u>	<u>52,562</u>	<u>—</u>	<u>191,934</u>

# Notes to Condensed Consolidated Financial Statements

30 June 2008

## 4. 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/(loss) on disposal of listed equity investments, dividend income from listed equity investments and interest income from convertible notes and loans receivable during the period.

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

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<b>Revenue</b>		
Sale of goods	2,350	52,562
Gain/(loss) on disposal of listed equity investments at fair value through profit or loss	(4,576)	113,788
Dividend income from listed equity investments	6,372	4,839
Interest income from convertible notes and loans receivable	2,517	7,351
Others	—	300
	<u>6,663</u>	<u>178,840</u>
<b>Other income and gains</b>		
Exchange gains, net	—	672
Gross rental income	444	382
Interest income on bank deposits	904	3,898
Gains on disposal of items of property, plant and equipment	—	110
Fair value gains, net:		
Listed equity investments at fair value through profit or loss	—	82,841
Convertible notes	—	22,789
Dividend income from available-for-sale investments	12,826	12,712
Fair value gains on investment properties	5,700	1,600
Others	199	446
	<u>20,073</u>	<u>125,450</u>

# Notes to Condensed Consolidated Financial Statements

30 June 2008

## 5. Other Expenses

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Fair value losses on listed equity investments at fair value through profit or loss, net	331,979	—
Exchange losses, net	101	—
	<u>332,080</u>	<u>—</u>

## 6. Finance Costs

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	465	1,664
Interest on a convertible note (note 10)	—	894
	<u>465</u>	<u>2,558</u>

## 7. Profit/(Loss) Before Tax

The Group's profit/(loss) before tax is arrived at after charging:

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Cost of inventories sold	2,304	50,289
Depreciation	1,230	1,272
Amortisation on prepaid land lease payments	826	739
	<u>4,360</u>	<u>52,300</u>

## Notes to Condensed Consolidated Financial Statements

30 June 2008

### 8. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Group:		
Hong Kong		
Charge for the period	—	21,930
Deferred tax charge	<u>881</u>	<u>317</u>
Total tax charge for the period	<u><u>881</u></u>	<u><u>22,247</u></u>

There were no significant potential deferred tax liabilities for which provision has not been made.

Share of tax attributable to associates amounting to HK\$5,477,000 (2007: HK\$8,227,000) is included in "Share of results of associates" on the face of the consolidated income statement.

### 9. Dividends Paid and Proposed

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Dividends on ordinary shares declared and paid during the six months period:		
Final dividend for 2007: 0.3 HK cents (2006: 0.3 HK cents)	<u><u>27,916</u></u>	<u><u>27,043</u></u>

The Board has resolved not to declare interim dividend for the six months ended 30 June 2008 (2007: Nil).

## Notes to Condensed Consolidated Financial Statements

30 June 2008

### 10. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

A dilutive loss per share amount for the period ended 30 June 2008 has not been disclosed as there is no diluting events existed during this period.

The calculation of diluted earnings per share amount for the period ended 30 June 2007 is based on the profit for that period 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 that period, 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/(loss) per share are based on:

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<b>Earnings/(loss)</b>		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation	(312,839)	260,315
Interest on a convertible note (note 6)	—	894
	<u>          </u>	<u>          </u>
Profit/(loss) attributable to ordinary equity holders of the Company before interest on a convertible note	<u>(312,839)</u>	<u>261,209</u>



# Notes to Condensed Consolidated Financial Statements

30 June 2008

## 10. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of the Company *(continued)*

	Number of shares For the six months ended 30 June	
	2008	2007
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	9,305,276,756	9,014,321,700
Effect of dilution – weighted average number of ordinary shares:		
Convertible note	—	290,955,056
	<hr/>	<hr/>
Weighted average number of ordinary shares in issue during the period used in the diluted earnings/(loss) per share calculation	<u>9,305,276,756</u>	<u>9,305,276,756</u>

## 11. Property, Plant and Equipment

During the six months ended 30 June 2008, the Group incurred approximately HK\$114,000 (2007: HK\$3,113,000) on the acquisition of items of property, plant and equipment.

## 12. 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.

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
0 - 30 days	—	343
More than 30 days	4,418	4,784
	<hr/>	<hr/>
	<u>4,418</u>	<u>5,127</u>

# Notes to Condensed Consolidated Financial Statements

30 June 2008

## 13. Trade Creditors

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
More than 60 days	<u>1,121</u>	<u>1,046</u>

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

## 14. Operating Lease Arrangements

### (a) As lessor

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:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	622	800
In the second to fifth years, inclusive	<u>200</u>	<u>466</u>
	<u>822</u>	<u>1,266</u>

### (b) As lessee

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	1,113	581
In the second to fifth years, inclusive	<u>1,217</u>	<u>—</u>
	<u>2,330</u>	<u>581</u>

# Notes to Condensed Consolidated Financial Statements

30 June 2008

## 15. Commitments

At the balance sheet date, the Group did not have any significant commitments (31 December 2007: Nil).

## 16. Related Party Transactions

In addition to the transactions detailed elsewhere in these unaudited interim condensed consolidated financial statements, the Group had the following transactions with related parties during the period:

	Note	For the six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Rental expenses for office premises paid to a substantial shareholder	(i)	498	498
Interest expense paid to a related company		—	385
		<u>          </u>	<u>          </u>

Note:

- (i) The rental expenses were charged at cost, based on the floor area shared and occupied by the Group in respect of the office premises rented by Chongqing, a substantial shareholder of the Company. This transaction also constituted a connected transaction of the Company under the Listing Rules.

## 17. Approval of the Interim Financial Statements

These unaudited interim condensed consolidated financial statements were approved by the Board on 12 September 2008.