YUGANG

YUGANG INTERNATIONAL LIMITED

Stock Code: 613

08

Annual Report

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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

Authorised Representatives

Mr. Cheung Chung Kiu
Mr. Yuen Wing Shing

Secretary

Albert T.da Rosa, Jr.

Auditors

Ernst & Young

Principal 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

Chairman's Statement and 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 annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

RESULTS

The Group recorded a loss attributable to shareholders of HK$723.7 million for the year ended 31 December 2008 (2007: net profit of HK$265.3 million). The basic loss per share for the year was 7.78 HK cents (2007: basic earnings per share of 2.90 HK cents).

BUSINESS REVIEW

In the second half of 2008, the economy of Hong Kong became unfavorable due to the outbreak of global financial crisis and it continued to deteriorate following the collapse of Lehman Brothers in September 2008. The meltdown of the global financial market had inevitably hurt investors' confidence and dampened investment demand and activities. Notwithstanding bailouts of a number of major global financial institutions have been taken place, the market sentiment remains gloomy. The increasing unemployment rate, declining export growth and weakening private consumption all signify the deepened global financial turmoil.

The rising uncertainty in the global financial market had volatilized the global stock markets and Hong Kong's Hang Seng Index dropped drastically to the lowest of 10,676 points in October 2008, the group's treasury investment segment was therefore significantly affected.

Property Investment Business

The property investment flagship of the Group is Y. T. Realty Group Limited ("Y. T. Realty"), a major associate of the Company, whose shares are traded on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The principal properties held by Y. T. Realty include the whole block of Century Square and Prestige Tower, both situate in the core of Central District and Tsimshatsui respectively.

During the year under review, the gross rental income of Y. T. Realty recorded an increase of HK$9.0 million or 8.5% to approximately HK$114.1 million due to the increase in rents and high occupancy rates. Riding on the prestigious location of office buildings, quality property management team and enhancement of pro-active marketing strategies, Y. T. Realty had successfully retained and attracted quality tenants despite the adverse economic environment in the local market. In addition, the occupancy rate was satisfactorily committed at 96% at the end of 2008.

Y. T. Realty recorded a net profit after tax of HK$170.8 million for the year, representing a decrease of HK$157.8 million or 48.0% from the last corresponding year. It was mainly attributable to a decrease in the profit contribution from an associated company and decrease in fair value gain in the revaluation of investment properties.

Infrastructure Business

The Group's infrastructure business was held indirectly through The Cross-Harbour Holdings Ltd ("Cross-Harbour"), whose shares are traded on the main board of the Stock Exchange. The principal activities of Cross-Harbour include tunnel operations which generated steady cash flow from toll revenue. Cross-Harbour currently held substantial interests in the Western Harbour Tunnel and Tate's Cairn Tunnel.

During the year under review, the toll revenue of Western Harbour Tunnel recorded a remarkable increase. An increasing income from toll revenue can be ascertained after the acquiring of 39.5% equity interests in Tate's Cairn Tunnel in mid-December 2008.

The net profit after tax and minority interests of Cross-Harbour for the year was HK$140.3 million, representing 46.4% down from the last corresponding year. This was mainly due to the negative performance of its treasury segment for the year as opposed to the significant gain on disposal of listed securities investment in the previous financial year.

Chairman's Statement and Management Discussion and Analysis

Treasury Investment

The Group held a substantial portfolio of securities investment which was vulnerable to volatility of stock market. Since the inception of subprime mortgage crisis and subsequent global financial crisis, Hang Seng Index fell down fiercely from 27,813 points on 31 December 2007 to the lowest point of 10,676 in October 2008. The extreme volatility of stock market had seriously impacted the performance of the Group's treasury investment, though the Group had cautiously diversified its investment portfolios. As such, the Group's treasury investment segment recorded a very substantial loss of HK$712.8 million for the year. Such losses were mainly attributable to unrealized loss of HK$421.7 million on securities investment and realized loss of HK$232.1 million on disposal of securities investment.

PROSPECT

Global economies are currently facing with a threat of economic recession. The series of measures that have undergone by various governments and central banks have shown limited relieves, leaving all global major stock indices continue to slide. The potential contraction of the banking and financial sectors may lead to a new round of redundancies and translate into reducing demand for commodities, housing, energy supplies and retail consumption etc.

Given Hong Kong's strong reliance on the financial and trading sectors, the territory will unavoidably be hit by the global financial crisis. Nevertheless, the PRC Central government has relaxed its macroeconomic control measures including fiscal, administrative and monetary policies. A series of stimulus measures have been pronounced to restore and maintain the economic growth of the PRC such as RMB4 trillion fiscal stimulus, series of interest rate cut, reduction in banks' deposit reserve ratio and offering of economic aid to various industries etc. In early 2009, the easing inflationary pressure in China will enable central Government to facilitate further relaxation of macroeconomic policies. Hong Kong, being one of China's window cities, will be benefited as a consequence.

To attenuate the sluggish tendancy in property market, Y. T. Realty attempted to manage the operational risk by closely monitoring property market conditions, retaining flexibility in adjusting development plans, adjusting tenants' portfolio, pursuing active marketing and promotion tactics and launching a number of major renovations.

As the global economy will indisputably be volatile in 2009, the Group will adopt conservative strategies in financial management and focus its investment towards long-term strategic growth with sound financial and management capabilities.

FINANCIAL REVIEW

The Group recorded negative revenue of HK$219.2 million during the year under review. It was attributable to a loss of HK$232.1 million on disposal of listed securities investment for the year.

The consolidated net asset value of the Group as at 31 December 2008 was HK$1,944.1 million, representing a significant decrease of HK$3,154.0 million or 62%. It was mainly attributable to the net loss attributable to shareholders of HK$723.7 million for the year and a substantial fall in value of HK$2,392.4 million in its equity investment in C C Land Holdings Ltd ("C C Land"), whose shares are traded on the main board of the Stock Exchange.

As at 31 December 2008, the consolidated net asset value per share of the Group was HK$0.21. The Group's total assets and total liabilities were HK$2,116.3 million and HK$172.2 million respectively.

Chairman's Statement and Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the cash and cash equivalents of the Group was HK$89.7 million, and the cash and the listed securities investment of the Group in aggregate were HK$467.3 million. In addition, the Group maintained high value of net current asset at HK$316.1 million and healthy current ratio at 2.9 times. Gearing ratio of the Group, being the net debt divided by shareholders' equity, was kept low at 2.7%. Net debt was interest-bearing bank loans, trade and other payables, net of cash and cash equivalents. The Group had cautiously preserved a healthy financial position and adequate liquidity resources by maintaining a low gearing ratio and high liquidity ratio particularly when it was faced with economic uncertainties caused by global financial crisis.

As at 31 December 2008, the Group had bank borrowings of HK$120.0 million and none of any contingent liabilities.

EXCHANGE RISK

Except certain securities investment and bank deposits were denominated in foreign currencies which represented approximately 3.4% 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 31 December 2008, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK$61.82 million and its time deposits of approximately HK$9.33 million to secure the general banking facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICY

The Group employed a total of 42 staffs as at 31 December 2008.

The Group's remuneration policy is to ensure fair and competitive packages based on business needs and industry practice. The Company aims to provide incentives to Directors, senior management and employees to perform at their highest level as well as to attract, retain and motivate the very best people. 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.

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.

SIGNIFICANT INVESTMENTS

The Group held a significant interest in C C Land that was accounted as available-for-sale investment, the fair value of which was HK$495.8 million as at 31 December 2008 (2007: HK$2,888.2 million), representing a significant decrease of HK$2,392.4 million for the year. This amount of fair value loss had been taken to an equity reserve account of the Group and had resulted in a significant decrease of the shareholders' equity. The Group received a dividend income of HK$12.7 million from C C Land for the year.

The Group maintained its equity interests in Y. T. Realty with a carrying value of HK$1,019.4 million as at 31 December 2008. The net profit after tax of Y.T. Realty for the year was HK$170.8 million.

Chairman's Statement and Management Discussion and Analysis

FINAL DIVIDEND

The Board resolved that the Company should not declare any final dividend for the year ended 31 December 2008. No interim dividend was paid 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the 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, 27 March 2009

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to an ongoing enhancement of effective and efficient corporate governance practices. 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 Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Code for Securities Transactions by Directors of the Company ("Directors Securities Dealings Code") on terms no less exacting than 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. The Company uses various communication channels to promptly inform Directors on any updates on the Model Code released by the Stock Exchange, and reminds Directors to adhere to the Model Code.

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, 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 have been conducted by the Board to ensure delegated tasks are appropriately performed.

B. Chairman and Chief Executive Officer ("CEO")

Mr Cheung Chung Kiu was elected the Chairman of the Board in 1993. Mr. Cheung is accountable for the sketching of business development plans, strategies, objectives and policies for the Company. In addition, the Chairman is responsible for ensuring 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 was elected the Managing Director of the Company who 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, responsible for the day-to-day management of the Company, setting up budgets, monitoring performance of the management and effectiveness of the Company.

Corporate Governance Report

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 "Profile of Directors and Senior Management" on pages 20 to 21 of this report. All Directors are experience personnel with academic and professional qualifications in accounting, legal and business management and at least one of them has appropriate professional qualification 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.

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. The Company has obtained written confirmation of independence from all independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors have met the standard set out in the guidelines under the Listing Rules and in particular, they are all independent within the meaning in the said guidelines.

Corporate Governance Report

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 will be convened when necessary to deal with everyday matters which require the Board's prompt decision, and are usually attended to by the executive Directors only. During the year of 2008, the Board had held four full Board meetings and the attendance records of individual Directors are set out as follows:

Directors' attendance at Board meetings

	Full Board Meetings Attended/Held	Percentage
Executive Directors		
Mr. Cheung Chung Kiu	4/4	100%
Mr. Yuen Wing Shing	4/4	100%
Mr. Zhang Qing Xin	4/4	100%
Mr. Lam Hiu Lo	4/4	100%
Mr. Liang Kang	4/4	100%
Non-executive Directors		
Mr. Lee Ka Sze, Carmelo	4/4	100%
Mr. Wong Yat Fai	4/4	100%
Independent non-executive Directors		
Mr. Luk Yu King, James	4/4	100%
Mr. Ng Kwok Fu	4/4	100%
Mr. Leung Yu Ming, Steven	4/4	100%

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. Agenda and 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.

Corporate Governance Report

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

The bye-laws of the Company (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.

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 considers 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 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.

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.

A meeting was held in 2008 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 year of 2008/09;

ii) The Directors' fee for the non-executive Directors and independent non-executive Directors;

iii) The remuneration packages of executive Directors and senior executives of the Company (including the basic salaries, discretionary bonus, retirement benefit and discretionary share option);

iv) The existing share option policy;

v) The retirement benefit schemes;

vi) The long-term incentive arrangement;

Corporate Governance Report

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

— To review and make recommendation to the Board on remuneration policy of the Company;

— To review and make recommendation to the Board on remuneration packages of executive Directors and senior executives of the Company.

— To review and make recommendation to the Board on fees payable to non-executive Directors and independent non-executive Directors.

The Company's remuneration policy is to ensure fair and competitive packages based on business needs and industry practice. The Company aims to provide incentives to Directors, senior management and employees to perform at their highest level as well as to attract, retain and motivate the very best people. Remuneration will be determined by market and economic situation, GDP growth and inflation rates. In addition, performance-based assessment such as individual's potential and contribution to the Group, time commitment and responsibilities undertaken will all be considered. The remuneration committee also ensures that no individual Directors are involved in determining their own remuneration.

ACCOUNTABILITY AND AUDIT

The Board is also responsible for the integrity of financial information. The 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. The Directors also ensure the timely publication of the 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

The audit committee of the Company is chaired by Mr. Luk Yu King, James, with other members including Mr. Lee Ka Sze, Carmelo, Mr. Ng Kwok Fu and Mr. Leung Yu Ming, Steven, comprising a majority of independent non-executive Directors with diversified industry experience, particularly in accounting, legal, commercial and management sectors. The chairman has appropriate professional qualification and experience in accounting matters.

The specific written terms of reference which clearly set out the authorities and duties of the audit committee can be viewed 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 matters set out in the Code Provisions in relation to the audit committee.

Corporate Governance Report

During the year of 2008, 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 2008 and the six-month period ended 30 June, 2008, discussions have been made on auditing, financial and internal control, and financial reporting matters of the Company. The audit committee focuses on the impact of the changes in accounting policies and practices and also on the compliance with accounting standards, the Listing Rules and the legal requirements in reviewing the Company's interim and annual reports.

The audit committee meets regularly. In 2008, 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 the members' attendance at the audit committee meetings held in 2008 are as follows:

	Audit Committee	
Name of Members	Attended/Held	Percentage
Mr. Luk Yu King, James	3/3	100%
Mr. Lee Ka Sze, Carmelo	3/3	100%
Mr. Ng Kwok Fu	3/3	100%
Mr. Leung Yu Ming, Steven	3/3	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)	318,200
Total	1,468,200

Note: Non-audit fee includes an interim result advisory fee of HK$200,000 and tax compliance service fee of HK$118,200.

INTERNAL CONTROL

The Board acknowledges the responsibilities to establish, maintain and operate an effective internal control system of 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, provide 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.

The Board is of the view that the internal control system of the Group for the year under review is sound and sufficiently safeguarding 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 has pleasure to present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2008.

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 18 and 19 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 loss for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 77.

The Board did not recommend the payment of final dividend for the year ended 31 December 2008.

SEGMENT INFORMATION

An analysis of the Group's performance by business and geographical segments for the year ended 31 December 2008 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 78. This summary does not form part of the audited financial statements.

PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTIES

Particulars of the property and equipment and investment properties of the Group during the year are set out in notes 15 and 16 to the financial statements respectively.

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 provision 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.

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.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company's reserves available for distribution, calculated in accordance with Companies Act (1981) of Bermuda (as amended), amounted to HK$842,572,000 (2007: HK$875,803,000), none of which (2007: HK$27,916,000) was proposed as final dividend for the year. In addition, the Company's share premium accounts, in the amount of HK$907,280,000 (2007: HK$907,280,000), may be distributed in the form of fully paid bonus shares.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$1,142,000.

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

Independent Non-executive Directors:

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

Pursuant to Bye-law 87, Mr. Zhang Qing Xin, Mr. Lam Hiu Lo, Mr. Lee Ka Sze, Carmelo and Mr. Ng Kwok Fu will retire by rotation at the conclusion of the annual general meeting to be held on 15 May 2009, and, being eligible, Mr. Zhang Qing Xin and Mr. Lam Hiu Lo will offer themselves for re-election as executive Directors, Mr. Lee Ka Sze, Carmelo will offer himself for re-election as non-executive Director and Mr. Ng Kwok Fu will offer himself for re-election as independent non-executive Director.

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 2008, 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 pursuant to the Model Code 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 *(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
Mr. Liang Kang	Personal	20,000,000	0.21

(ii) Long positions in shares and underlying 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 the 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

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.

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.

Report of the Directors

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 during the year and no option was outstanding as at 31 December 2008.

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 members 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; (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.
(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	930,527,675 ordinary shares and 10.0% of the existing issued share capital.

Report of the Directors

(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 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 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 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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" 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 38 to the Notes to 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	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 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 and as at 31 December 2008, 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 2008, sales to the Group's five largest customers accounted for 100% of the total sales for the year whereas sales to the largest customer included therein amounted to 46.2%.

Purchases from the Group's five largest suppliers accounted for 100% of the total purchases for the year whereas purchases from the largest supplier included therein amounted to 100%.

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

The Group entered into a sub-tenancy agreement with Chongqing Industrial Limited, a substantial shareholder of the Company in relation to premises situate at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The total rent and other charges amounted to approximately HK$581,000 for the year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the 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 2008 have been audited by Messrs Ernst & Young, Certified Public Accountants, who will retire at the conclusion of the annual general meeting to be held on 15 May 2009, being eligible, will offer themselves for reappointment.

On behalf of the Board

Yuen Wing Shing
Managing Director

Hong Kong, 27 March 2009

Profiles of Directors and Senior Management

Cheung Chung Kiu, aged 44, 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, Cross-Harbour and CC Land, all being listed public companies in Hong Kong. In addition, he is the director of Palin Holdings Limited, Chongqing Industrial Limited and such other companies disclosed in the section headed "Interests in Subsidiaries" in Note 18 to the Notes to Financial Statements. Further, Mr. Cheung is the son of Mr. Zhang Qing Xin, another Director of the Company.

Yuen Wing Shing, aged 62, was appointed an 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, and a non-executive director of Silver Grant International Industries Limited, all being listed public companies in Hong Kong. In addition, Mr. Yuen is a director of such other companies disclosed in the section headed "Interests in Subsidiaries" in Note 18 to the Notes to Financial Statements.

Zhang Qing Xin, aged 72, was appointed an 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 Limited, the major shareholder of the Company. Further, Mr. Zhang is the father of Mr. Cheung Chung Kiu, the Chairman of the Company.

Lam Hiu Lo, aged 47, was appointed an 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. He has over 23 years of experience in trading with PRC parties. He is an executive director of C C Land, whose shares are traded on the Stock Exchange. In addition, he is also a director of Yugang International (BVI) Limited, Yugang Finance Limited and New Wealth Limited.

Liang Kang, aged 66, was appointed an 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 48, was appointed an Independent Non-executive Director of the Company in 1993 and redesignated as Non-executive Director 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 being listed public companies in Hong Kong.

Wong Yat Fai, aged 49, was appointed an Independent Non-executive Director of the Company on 30th September 2004 and re-designated as Non-executive Director of the Company on 1st 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 being listed public companies in Hong Kong.

Profiles of Directors and Senior Management

Luk Yu King, James, aged 54, was appointed an Independent Non-executive Director of the Company in September 2007. Mr. Luk graduated from the University of Hong Kong with a bachelor degree in science. He is a fellow of The Association of Chartered Certified Accountants, 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, all being listed public companies in Hong Kong.

Ng Kwok Fu, aged 37, was appointed an Independent Non-executive Director of the Company on 30th September 2004. Mr. Ng holds a certificate in accounting from Grant MacEwan Community College. Mr. Ng has over 19 years of 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, all being listed public companies in Hong Kong.

Leung Yu Ming, Steven, aged 49, was appointed an Independent Non-executive Director of the Company in 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 of The Institute of Chartered Accountants in England and Wales, and a fellow of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong respectively. Mr. Leung is also a practising certified public accountant in Hong Kong and a certified practicing 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 23 years of experience in assurance, accounting, taxation, financial management and corporate finance. Mr. Leung is an independent non-executive director of Suga International Holdings Limited, Y.T. Realty, Cross-Harbour and C C Land, all being listed public companies in Hong Kong.

Leung Wai Fai, aged 47, 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 and The Hong Kong Institute of Certified Public Accountants. He is an executive director of C C Land and Cross-Harbour, all being listed public companies in Hong Kong.

Wong Ka Tai, aged 42, 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 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.

Independent Auditors' Report

ERNST & YOUNG
安 永

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 24 to 77, which comprise the consolidated and company balance sheets as at 31 December 2008, 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

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 2008 and of the Group's loss 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
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong
27 March 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	(219,185)	107,819
Cost of sales		(2,304)	(63,860)
Gross profit/(loss)		(221,489)	43,959
Other income and gains	5	23,142	200,235
Administrative expenses		(90,175)	(83,407)
Other expenses	6	(453,888)	—
Finance costs	8	(1,419)	(2,708)
Share of profits and losses of associates		17,151	129,615
PROFIT/(LOSS) BEFORE TAX	7	(726,678)	287,694
Tax	11	3,012	(22,412)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12	(723,666)	265,282
DIVIDEND	13	—	27,916
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	14		
Basic		(7.78) HK cents	2.90 HK cents
Diluted		N/A	2.86 HK cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property and equipment	15	12,076	18,651
Investment properties	16	17,200	15,300
Prepaid land lease payments	17	63,925	96,943
Interests in associates	19	1,019,405	1,019,915
Convertible notes receivable - loan portion	20	4,631	—
Loans receivable	21	1,000	1,000
Available-for-sale investments	22	511,224	2,916,046
Other assets		360	12,360
Total non-current assets		1,629,821	4,080,215
CURRENT ASSETS			
Listed equity investments at fair value through profit or loss	23	377,530	756,882
Conversion option derivative	20	4,858	—
Loans receivable	21	1,000	102,729
Trade receivables	24	—	5,127
Prepayments, deposits and other receivables	25	4,000	19,973
Pledged time deposits	26	9,330	9,206
Time deposits	26	40,144	50,243
Cash and bank balances	26	49,587	132,595
Total current assets		486,449	1,076,755
CURRENT LIABILITIES			
Trade payables	27	—	1,046
Tax payable		28,459	31,708
Other payables and accruals	28	21,866	24,482
Interest-bearing bank loans	29	120,000	—
Total current liabilities		170,325	57,236
NET CURRENT ASSETS		316,124	1,019,519
TOTAL ASSETS LESS CURRENT LIABILITIES		1,945,945	5,099,734
NON-CURRENT LIABILITIES			
Deferred tax liabilities	30	1,865	1,628
Net assets		1,944,080	5,098,106

Consolidated Balance Sheet *(continued)*

31 December 2008

	Notes	2008 *HK$'000*	2007 *HK$'000*
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	31	**93,053**	93,053
Reserves	32	**1,851,027**	4,977,137
Proposed final dividend	13	**—**	27,916
Total equity		**1,944,080**	5,098,106

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Equity component of a convertible note HK$'000	Available-for-sale investment revaluation reserve HK$'000	Other reserves HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total equity HK$'000
		Attributable to equity holders of the Company								
As at 1 January 2007		90,143	881,476	760,799	2,819	356,258	622	1,098,088	27,043	3,217,248
Fair value changes of available-for-sale investments		—	—	—	—	1,617,544	—	—	—	1,617,544
Share of changes in reserves of associates		—	—	—	—	—	(820)	—	—	(820)
Total income and expense for the year recognised directly in equity		—	—	—	—	1,617,544	(820)	—	—	1,616,724
Profit for the year		—	—	—	—	—	—	265,282	—	265,282
Total income and expense for the year		—	—	—	—	1,617,544	(820)	265,282	—	1,882,006
Issue of shares upon conversion of a convertible note	31	2,910	25,804	—	(2,819)	—	—	—	—	25,895
Proposed final dividend	13	—	—	—	—	—	—	(27,916)	27,916	—
Dividend paid		—	—	—	—	—	—	—	(27,043)	(27,043)
At 31 December 2007 and at 1 January 2008		93,053	907,280*	760,799*	—*	1,973,802*	(198)*	1,335,454*	27,916	5,098,106
Fair value changes of available-for-sale investments	22	—	—	—	—	(2,404,065)	—	—	—	(2,404,065)
Share of changes in reserves of associates		—	—	—	—	—	(9,470)	—	—	(9,470)
Total income and expense for the year recognised directly in equity		—	—	—	—	(2,404,065)	(9,470)	—	—	(2,413,535)
Release upon early redemption of an available-for-sale investment		—	—	—	—	11,091	—	—	—	11,091
Loss for the year		—	—	—	—	—	—	(723,666)	—	(723,666)
Total income and expense for the year		—	—	—	—	(2,392,974)	(9,470)	(723,666)	—	(3,126,110)
Dividend paid		—	—	—	—	—	—	—	(27,916)	(27,916)
At 31 December 2008		93,053	907,280*	760,799*	—*	(419,172)*	(9,668)*	611,788*	—	1,944,080

* These reserve accounts comprise the consolidated reserves of HK$1,851,027,000 (2007: HK$4,977,137,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 *HK$'000*	2007 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(726,678)	287,694
Adjustments for:			
Share of profits and losses of associates		(17,151)	(129,615)
Interest income from convertible notes and loans receivable	5	(2,814)	(10,819)
Interest income on bank deposits	5	(1,455)	(8,276)
Dividend income from listed equity investments at fair value through profit or loss	5	(7,774)	(17,715)
Dividend income from available-for-sale investments	5	(13,269)	(12,712)
Fair value gains on investment properties	5	(1,900)	(3,600)
Fair value losses/(gains) on listed equity investments at fair value through profit or loss, net	5, 6	421,670	(168,712)
Losses/(gains) on disposal of listed equity investments at fair value through profit or loss, net	5	232,123	(13,911)
Loss on early redemption of an available-for-sale investment	6	11,170	—
Fair value loss/(gain) on a conversion option derivative	5, 6	356	(5,072)
Depreciation	7	2,459	2,509
Amortisation of prepaid land lease payments	7	1,632	1,563
Impairment of trade receivables	6, 7	4,390	—
Impairment of an available-for-sale investment	6, 7	4,970	—
Write-off of an other receivable	6, 7	222	—
Gain on disposal of an other asset	5	(3,000)	—
Losses/(gains) on disposal of items of property and equipment and associated prepaid land lease payments, net	6, 7	10,259	(110)
Finance costs	8	1,419	2,708
		(83,371)	(76,068)
Decrease in trade receivables		737	2,447
Decrease/(increase) in prepayments, deposits and other receivables		11,072	(11,752)
Decrease/(increase) in listed equity investments at fair value through profit or loss		(268,519)	296,421
Decrease in loans receivable		101,729	64,163
Increase/(decrease) in trade payables		(1,046)	69
Increase/(decrease) in other payables and accruals		(2,568)	200
Dividend received from listed equity investments at fair value through profit or loss		5,124	7,568
Interest received from convertible notes and loans receivable		3,464	10,390
Cash generated from/(used in) operations		(233,378)	293,438
Hong Kong profits tax paid		—	(12,766)
Net cash inflow/(outflow) from operating activities		(233,378)	280,672

Consolidated Cash Flow Statement *(continued)*

Year ended 31 December 2008

	Notes	2008 *HK$'000*	2007 *HK$'000*
Net cash inflow/(outflow) from operating activities		**(233,378)**	280,672
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment	15	**(674)**	(4,771)
Proceeds from early redemption of an available-for-sale investment		**7,740**	—
Additions to prepaid land lease payments	17	**—**	(25,779)
Proceeds from disposal of an other asset		**15,000**	—
Proceeds from disposal of items of property and equipment and associated prepaid land lease payments		**26,277**	110
Interest received from bank deposits		**1,458**	8,322
Dividend received from an associate		**8,190**	8,190
Dividend income from available-for-sale investments	5	**13,269**	12,712
Purchases of convertible notes		**(9,600)**	(74,200)
Purchases of available-for-sale investments		**(12,033)**	(27,304)
Increase in pledged time deposits		**(124)**	(452)
Net cash inflow/(outflow) from investing activities		**49,503**	(103,172)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**235,000**	115,000
Repayment of bank loans		**(115,000)**	(210,000)
Interest paid		**(1,316)**	(2,622)
Dividend paid		**(27,916)**	(27,043)
Net cash inflow/(outflow) from financing activities		**90,768**	(124,665)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(93,107)**	52,835
Cash and cash equivalents at beginning of year		**182,838**	130,003
CASH AND CASH EQUIVALENTS AT END OF YEAR		**89,731**	182,838
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**49,587**	132,595
Non-pledged time deposits with original maturity of less than three months when acquired		**40,144**	50,243
		89,731	182,838

Balance Sheet

31 December 2008

	Notes	2008 *HK$'000*	2007 *HK$'000*
NON-CURRENT ASSETS			
Interests in subsidiaries	18	1,833,448	1,874,592
CURRENT ASSETS			
Prepayments	25	786	781
Cash and bank balances	26	9,339	1,421
Total current assets		10,125	2,202
CURRENT LIABILITIES			
Other payables and accruals	28	668	658
Total current liabilities		668	658
NET CURRENT ASSETS		9,457	1,544
TOTAL ASSETS LESS CURRENT LIABILITIES		1,842,905	1,876,136
Net assets		1,842,905	1,876,136
EQUITY			
Issued capital	31	93,053	93,053
Reserves	32	1,749,852	1,755,167
Proposed final dividend	13	—	27,916
Total equity		1,842,905	1,876,136

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

Notes to Financial Statements

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1. CORPORATE INFORMATION

Yugang International Limited (the "Company") 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 Company and its subsidiaries (collectively referred to as the "Group") were 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 include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2.2 IMPACT OF NEW AND REVISED HKFRSs

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. The adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 *Amendments*	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures - Reclassification of Financial Assets*
HK(IFRIC)-Int 11	HKFRS 2 - *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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2.2 IMPACT OF NEW AND REVISED HKFRSs *(continued)*

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

(a) Amendments to HKAS 39 Financial Instruments: *Recognition and Measurement and* HKFRS 7 *Financial Instruments: Disclosures - Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 HKFRS 2 - *Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

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2.2 IMPACT OF NEW AND REVISED HKFRSs *(continued)*

(d) HK(IFRIC)-Int 14 HKAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of* HKFRSs and *HKAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment - Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items* [2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfer of Assets from Customers* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs *(continued)*

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 HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, 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.

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 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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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 financial assets and investment properties), 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.

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 an 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 an impairment loss is credited to the income statement in the period in which it arises.

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 member of the key management personnel of the Group;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) 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 (c) or (d); or

(f) 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property 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 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 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 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%

Where parts of an item of property 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 least at each balance sheet date.

An item of property 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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating 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.

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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss (continued)

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.

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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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.

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 an available-for-sale equity investment 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. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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

Financial liabilities including trade and other payables and interest-bearing bank loans 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 of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

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31 December 2008

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.

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 and associates 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:

- 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 and associates, 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.

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31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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 dates 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.

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 a time proportion basis over the lease terms;

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

(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 shareholders' 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.

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Employee benefits

Retirement benefit scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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.

Notes to Financial Statements

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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.

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on evaluation of the terms and conditions of the arrangements, 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 Group's investment properties are assessed by management based on the property valuation performed by independent professionally 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.

Notes to Financial Statements

31 December 2008

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

Estimation uncertainty*(continued)*

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements in 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. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

At 31 December 2008, no impairment losses have been recognised for the Group's available-for-sale investment which is stated at fair value (2007: Nil). If the decline in fair value below cost was considered significant or prolonged, the Group would suffer an additional loss of HK$419,172,000 (2007: Nil) for the year ended 31 December 2008, being the transfer of the accumulated fair value adjustments recognised in equity on the impaired available-for-sale investment to the consolidated income statement.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 30 to the financial statements.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. 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. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the People's Republic of China (the "PRC"), including Hong Kong, and over 90% of the Group's assets are located in the PRC, including Hong Kong.

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 the leasing of investment properties and the holding of available-for-sale investments.

Notes to Financial Statements

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4. SEGMENT INFORMATION *(continued)*

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 31 December 2007.

Year ended 31 December 2008

	Trading of scrap metals and other materials *HK$'000*	Treasury investment *HK$'000*	Property and other investments *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Segment revenue:					
Revenue from external customers	2,350	(221,535)	—	—	(219,185)
Other revenue	17	—	19,003	2,667	21,687
Total revenue	2,367	(221,535)	19,003	2,667	(197,498)
Segment results	(8,583)	(712,819)	2,051	—	(719,351)
Unallocated expenses, net	—	—	—	(24,514)	(24,514)
Interest income on bank deposits					1,455
Finance costs					(1,419)
Share of profits and losses of associates	—	—	17,151	—	17,151
Loss before tax					(726,678)
Tax					3,012
Loss for the year					(723,666)
Assets and liabilities:					
Segment assets	7,536	469,669	528,643	—	1,005,848
Interests in associates	—	—	1,019,405	—	1,019,405
Unallocated assets	—	—	—	91,017	91,017
Total assets					2,116,270
Segment liabilities	1,171	128,514	2,106	—	131,791
Unallocated liabilities	—	—	—	40,399	40,399
Total liabilities					172,190
Other segment information:					
Capital expenditure	—	—	—	(674)	(674)
Depreciation	(171)	(52)	—	(2,236)	(2,459)
Amortisation of prepaid land lease payments	—	—	—	(1,632)	(1,632)
Fair value losses on listed equity investments at fair value through profit or loss, net	—	(421,670)	—	—	(421,670)
Losses on disposal of listed equity investments at fair value through profit or loss, net	—	(232,123)	—	—	(232,123)
Loss on early redemption of an available-for-sale investment	—	—	(11,170)	—	(11,170)
Losses on disposal of items of property and equipment and associated prepaid land lease payments, net	—	—	—	(10,259)	(10,259)
Impairment of trade receivables	(4,390)	—	—	—	(4,390)
Impairment of an available-for-sale investment	—	—	(4,970)	—	(4,970)
Write-off of an other receivable	—	—	—	(222)	(222)

Notes to Financial Statements

31 December 2008

4. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2007

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

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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, gains/(losses) on disposal of listed equity investments at fair value through profit or loss, dividend income from listed equity investments at fair value through profit or loss 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:

	2008 *HK$'000*	2007 *HK$'000*
Revenue		
Sale of goods	2,350	65,074
Gains/(losses) on disposal of listed equity investments at fair value through profit or loss, net	(232,123)	13,911
Dividend income from listed equity investments at fair value through profit or loss	7,774	17,715
Interest income from convertible notes and loans receivable	2,814	10,819
Others	—	300
	(219,185)	107,819
Other income and gains		
Gross rental income	835	763
Interest income on bank deposits	1,455	8,276
Fair value gains, net:		
Listed equity investments at fair value through profit or loss	—	168,712
Conversion option derivative	—	5,072
Dividend income from available-for-sale investments	13,269	12,712
Fair value gains on investment properties *(note 16)*	1,900	3,600
Gain on disposal of an other asset	3,000	—
Others	2,683	1,100
	23,142	200,235

6. OTHER EXPENSES

	2008 *HK$'000*	2007 *HK$'000*
Fair value losses, net:		
Listed equity investments at fair value through profit or loss	421,670	—
Conversion option derivative	356	—
Loss on early redemption of an available-for-sale investment	11,170	—
Losses on disposal of items of property and equipment and associated prepaid land lease payments, net	10,259	—
Exchange losses, net	851	—
Impairment of trade receivables	4,390	—
Impairment of an available-for-sale investment	4,970	—
Write-off of an other receivable	222	—
	453,888	—

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7. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2008 HK$'000	2007 HK$'000
Cost of inventories sold		2,304	63,860
Depreciation	15	2,459	2,509
Amortisation of prepaid land lease payments	17	1,632	1,563
Minimum lease payments under operating leases:			
Land and buildings		1,130	996
Others		7,142	6,437
		8,272	7,433
Auditors' remuneration		1,150	1,150
Staff costs (including directors' remuneration) *(note 9)*:			
Wages and salaries		40,572	38,086
Pension scheme contributions		441	375
		41,013	38,461
Net rental income		(763)	(698)
Exchange losses/(gains), net		851	(294)
Impairment of trade receivables		4,390	—
Impairment of an available-for-sale investment		4,970	—
Write-off of an other receivable		222	—
Losses/(gains) on disposal of items of property and equipment and associated prepaid land lease payments, net		10,259	(110)

8. FINANCE COSTS

	Group	
	2008 HK$'000	2007 HK$'000
Interest on bank loans	1,419	1,664
Interest on a convertible note	—	1,044
Total interest expense on financial liabilities not at fair value through profit or loss	1,419	2,708

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9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008 *HK$'000*	2007 *HK$'000*
Fees	1,900	1,900
Other emoluments:		
Salaries, allowances and benefits in kind	11,235	9,473
Discretionary bonuses	7,400	9,400
Pension scheme contributions	48	48
	20,583	20,821

(a) Independent non-executive directors

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

	2008 *HK$'000*	2007 *HK$'000*
Mr. Luk Yu King, James	400	—
Mr. Wong Wai Kwong, David (resigned on 26 July 2007)	—	500
Mr. Ng Kwok Fu	200	200
Mr. Wong Yat Fai	—	150
Mr. Leung Yu Ming, Steven	100	—
	700	850

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

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

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9. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2008					
Executive directors:					
Mr. Cheung Chung Kiu	—	4,480	3,000	12	7,492
Mr. Yuen Wing Shing	—	3,020	1,300	12	4,332
Mr. Zhang Qing Xin	—	1,280	1,200	—	2,480
Mr. Lam Hiu Lo	—	1,420	1,200	12	2,632
Mr. Liang Kang	—	1,035	700	12	1,747
	—	11,235	7,400	48	18,683
Non-executive directors:					
Mr. Lee Ka Sze, Carmelo	1,000	—	—	—	1,000
Mr. Wong Yat Fai	200	—	—	—	200
	1,200	—	—	—	1,200
	1,200	11,235	7,400	48	19,883
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

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

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2007: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2007: two) non-director, highest paid employees for the year are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**3,196**	2,840
Discretionary bonuses	**2,400**	2,400
Pension scheme contributions	**24**	24
	5,620	5,264

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

	Number of employees	
	2008	2007
HK$2,500,001 to HK$3,000,000	**2**	2

11. 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 year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008.

	2008	2007
	HK$'000	*HK$'000*
Group:		
Current - Hong Kong		
Charge for the year	**—**	22,328
Overprovision in prior years	**(3,249)**	(567)
	(3,249)	21,761
Deferred *(note 30)*	**237**	651
Total tax charge/(credit) for the year	**(3,012)**	22,412

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11. TAX *(continued)*

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the statutory rate to the tax expense/(credit) 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

	2008		2007	
	HK$'000	%	*HK$'000*	%
Profit/(loss) before tax	(726,678)		287,694	
Tax at the statutory tax rate	(119,902)	16.5	50,346	17.5
Adjustments in respect of current tax of previous years	(3,249)	0.5	(567)	(0.2)
Profits and losses attributable to associates	(2,830)	0.4	(22,682)	(7.9)
Income not subject to tax	(4,665)	0.6	(8,795)	(3.1)
Expenses not deductible for tax	22,917	(3.2)	1,590	0.6
Tax losses not recognised	104,731	(14.4)	2,482	0.9
Tax losses utilised from previous years	(54)	—	—	—
Others	40	—	38	—
Tax charge/(credit) at the Group's effective rate	(3,012)	0.4	22,412	7.8

The share of tax attributable to associates amounting to HK$3,276,000 (2007: HK$13,627,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

12. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of HK$5,315,000 (2007: profit of HK$32,543,000) which has been dealt with in the financial statements of the Company *(note 32)*.

13. DIVIDEND

	2008	2007
	HK$'000	*HK$'000*
Proposed final - Nil (2007: HK$0.003) per ordinary share	—	27,916

The Board do not recommend the payment of any dividend in respect of the year.

Notes to Financial Statements

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14. 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 year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 December 2008 has not been disclosed as no diluting events existed during the year.

The calculation of diluted earnings per share amount for the prior year is based on the profit for that 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 that 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/(loss) per share are based on:

	2008 *HK$'000*	2007 *HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation	**(723,666)**	265,282
Interest on a convertible note	—	1,044
Profit/(loss) attributable to ordinary equity holders of the Company before interest on a convertible note	**(723,666)**	266,326

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/ (loss) per share calculation	**9,305,276,756**	9,137,080,820
Effect of dilution - weighted average number of ordinary shares:		
Convertible note	—	168,195,937
Weighted average number of ordinary shares in issue during the year used in the diluted earnings/(loss) per share calculation	**9,305,276,756**	9,305,276,757

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15. PROPERTY AND EQUIPMENT

Group

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Office equipment *HK$'000*	Motor vehicles and yachts *HK$'000*	Total *HK$'000*
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
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
At 1 January 2008, net of accumulated depreciation and impairment	12,219	1,356	883	342	3,851	18,651
Additions	—	39	234	124	277	674
Disposals	(3,548)	(695)	(474)	(73)	—	(4,790)
Depreciation provided during the year	(300)	(371)	(310)	(139)	(1,339)	(2,459)
At 31 December 2008, net of accumulated depreciation and impairment	8,371	329	333	254	2,789	12,076
At 31 December 2008:						
Cost	11,458	4,902	5,615	2,941	16,395	41,311
Accumulated depreciation and impairment	(3,087)	(4,573)	(5,282)	(2,687)	(13,606)	(29,235)
Net carrying amount	8,371	329	333	254	2,789	12,076

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15. PROPERTY AND EQUIPMENT *(continued)*

Group

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Office equipment *HK$'000*	Motor vehicles and yachts *HK$'000*	Total *HK$'000*
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

Certain of the Group's buildings were pledged to banks to secure banking facilities granted to the Group *(note 36)*.

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16. INVESTMENT PROPERTIES

	Group	
	2008 *HK$'000*	2007 *HK$'000*
Carrying amount at 1 January	15,300	11,700
Net profit from a fair value adjustment	1,900	3,600
Carrying amount at 31 December	17,200	15,300

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 2008. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a).

At 31 December 2008, the Group's investment properties with a carrying value of HK$17,200,000 (2007: HK$15,300,000) were pledged to a bank to secure banking facilities granted to the Group *(note 36)*.

17. PREPAID LAND LEASE PAYMENTS

	Group	
	2008 *HK$'000*	2007 *HK$'000*
Carrying amount at 1 January	98,497	74,281
Additions	—	25,779
Disposals	(31,746)	—
Recognised during the year	(1,632)	(1,563)
Carrying amount at 31 December	65,119	98,497
Current portion included in prepayments, deposits and other receivables *(note 25)*	(1,194)	(1,554)
Non-current portion	63,925	96,943

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

	2008 *HK$'000*	2007 *HK$'000*
Long term leases	57,008	83,750
Medium term leases	8,111	14,747
	65,119	98,497

Certain of the Group's leasehold land was pledged to banks to secure banking facilities granted to the Group *(note 36)*.

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18. INTERESTS IN SUBSIDIARIES

	Company 2008 HK$'000	Company 2007 HK$'000
Unlisted shares, at cost	105,759	105,759
Due from subsidiaries	1,727,689	1,768,833
	1,833,448	1,874,592

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 Directors, these advances are considered as quasi-equity loans to the subsidiaries.

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 2008	Percentage of equity attributable to the Company 2007	Principal activities
Big Brother Resources Limited	British Virgin Islands	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	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
Funrise Limited	British Virgin Islands	US$1	100	100	Investment holding
Joywell Holdings Limited	British Virgin Islands	US$1	100	100	Investment holding

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18. 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
			2008	2007	
Kent Smart Investments Limited	Hong Kong	HK$2	100	100	Property holding
Maxking Industries Limited	Hong Kong	HK$2	100	100	Motor vehicle leasing
Maxlord Enterprises Limited	Hong Kong	HK$2	100	100	Money lending
Megaspace Asia Limited	British Virgin Islands	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	100	Property holding
Time Lander Limited	British Virgin Islands	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	Provision of financial services
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 above principal 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.

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19. INTERESTS IN ASSOCIATES

	Group 2008 HK$'000	Group 2007 HK$'000
Share of net assets	1,019,405	1,019,915
Market value of listed shares	333,060	529,620

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 2008	Percentage of equity attributable to the Group 2007	Principal activities
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 Investments Hong Kong Company	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

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19. INTERESTS IN ASSOCIATES *(continued)*

Name	Place of incorporation/ registration and operations	Particulars of issued share held	Percentage of equity attributable to the Group 2008	2007	Principal activities
Y.T. Finance Limited	Hong Kong	Ordinary shares of HK$500 each	**34.14**	34.14	Finance vehicle
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:

	2008 *HK$'000*	2007 *HK$'000*
Assets	**3,760,102**	3,819,064
Liabilities	**774,410**	831,642
Revenue	**124,344**	116,520
Profit	**170,781**	328,563

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20. CONVERTIBLE NOTES RECEIVABLE

	Group	
	2008	2007
	HK$'000	*HK$'000*
Unlisted convertible notes:		
Loan portion	4,631	—
Conversion option derivative at fair value	4,858	—
	9,489	—

At 31 December 2008, the Group held unlisted convertible notes with an aggregate principal amount of HK$9,600,000, which was issued by a company listed on the Stock Exchange. The convertible notes confer rights on the bearers to convert the whole or part of the outstanding principal amounts into ordinary shares of the issuer at a conversion price of HK$0.06 per share in the defined period. The convertible notes are non-interest-bearing and will mature in October 2011.

The convertible notes could only be redeemed by the issuer at their face values upon maturity to the extent of the amounts not previously converted by the holders.

The fair value of the loan portion of the convertible notes is determined based on an effective interest rate of 29.8% on initial recognition and the fair value of the conversion option derivative is determined using the Black-Scholes Model.

21. LOANS RECEIVABLE

	Group	
	2008	2007
	HK$'000	*HK$'000*
Unsecured:		
Non-current	1,000	1,000
Current	1,000	102,729
	2,000	103,729

The Group's loans receivable represents receivables arising from its money lending business and are stated at amortised cost at an effective interest rate equal to the Hong Kong dollar prime rate (the "Prime Rate") (2007: Prime Rate to 1% above the Prime Rate) per annum. The credit terms are normally ranged from one month to two years. As the Group's loans receivable has been reduced significantly during the year, the directors are of the opinion that there is no significant credit risk.

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22. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2008 *HK$'000*	2007 *HK$'000*
Listed equity investment in Hong Kong, at fair value	495,767	2,888,162
Unlisted investment, at fair value	—	24,498
	495,767	2,912,660
Unlisted investment, at cost	20,427	3,386
Provision for impairment	(4,970)	—
	15,457	3,386
	511,224	2,916,046

Particulars of the Group's 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	
			2008	2007
C C Land Holdings Limited	Bermuda	HK$214,463,000	11.85	11.74

During the year, the fair value loss on the Group's available-for-sale investments recognised directly in equity amounted to HK$2,404,065,000 (2007: gain of HK$1,617,544,000).

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

The Group's unlisted investment in the prior year represented an overseas fund investment and the fair value was based on a value quoted by the relevant financial institution.

The unlisted equity investment of the Group as at 31 December 2008 was stated at cost less any impairment losses and not at fair value because it did not have a quoted market price in an active market, the range of reasonable fair value estimates is significant, and the probabilities of the various estimates cannot be reasonably assessed. The Group does not intend to dispose of it in the near future.

The market value of the Group's listed equity investment at the date of approval of these financial statements was approximately HK$472,886,000.

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23. LISTED EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008	2007
	HK$'000	*HK$'000*
Listed equity investments, at market value:		
Hong Kong	314,878	600,919
Elsewhere	62,652	155,963
	377,530	756,882

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 listed equity investments at fair value through profit or loss at the date of approval of these financial statements was approximately HK$475,818,000.

24. TRADE RECEIVABLES

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 receivables at the balance sheet date, based on the payment due date, is as follows:

	Group					
	2008			2007		
	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
More than 60 days	—	—	—	—	4,784	4,784
	—	—	—	343	4,784	5,127

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24. TRADE RECEIVABLES *(continued)*

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	**—**	—
Impairment losses recognised *(note 6)*	**4,390**	—
At 31 December	**4,390**	—

The above provision for impairment of trade receivables is a provision for an individually impaired trade receivable. This individually impaired trade receivable relate, to a customer that was in financial difficulties and the Group does not hold any collateral or other credit enhancements over this balance.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**1,892**	13,376	**786**	781
Deposits	**648**	715	**—**	—
Other receivables	**266**	4,328	**—**	—
Prepaid land lease payments *(note 17)*	**1,194**	1,554	**—**	—
	4,000	19,973	**786**	781

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one week depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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27. TRADE PAYABLES

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

	Group	
	2008	2007
	HK$'000	*HK$'000*
More than 60 days	**—**	1,046

The trade payables in the prior year are non-interest-bearing and are normally settled on 60 day terms.

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**2,613**	3,995	**653**	643
Accruals	**19,048**	20,139	**15**	15
Customers' deposits received	**205**	348	**—**	—
	21,866	24,482	**668**	658

Other payables are non-interest-bearing and repayable on demand.

29. INTEREST-BEARING BANK LOANS

			Group	
	Effective interest rate (%)	Maturity	**2008** ***HK$'000***	2007 *HK$'000*
Current:				
Bank loans - secured	3.76	2009	**120,000**	—
			120,000	—

All the above bank loans are in Hong Kong dollars and their carrying amounts as at 31 December 2008 approximated to their fair values.

The above bank loans are secured by certain of the Group's investment properties, leasehold land and buildings and corporate guarantees provided by the Company *(note 36)*.

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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 *HK$'000*	Depreciation allowance in excess of related depreciation *HK$'000*	Total *HK$'000*
At 1 January 2007	892	625	1,517
Deferred tax charged/(credited) to the income statement during the year *(note 11)*	631	(35)	596
Gross deferred tax liabilities at 31 December 2007 and 1 January 2008	1,523	590	2,113
Deferred tax charged/(credited) to the income statement during the year *(note 11)*	226	(148)	78
Gross deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2008	1,749	442	2,191

Deferred tax assets

Group

	Losses available for offsetting against future taxable profits *HK$'000*
At 1 January 2007	540
Deferred tax charged to the income statement during the year *(note 11)*	(55)
Gross deferred tax assets at 31 December 2007 and 1 January 2008	485
Deferred tax charged to the income statement during the year *(note 11)*	(159)
Gross deferred tax assets at 31 December 2008	326

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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 balance of the Group for financial reporting purposes:

	2008 *HK$'000*	2007 *HK$'000*
Net deferred tax liabilities recognised in the consolidated balance sheet	**1,865**	1,628

The Group has tax losses arising in Hong Kong of HK$643,667,000 (2007: HK$1,713,000) 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.

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

31. SHARE CAPITAL

Shares

	2008 *HK$'000*	2007 *HK$'000*
Authorised:		
50,000,000,000 (2007: 50,000,000,000) ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
9,305,276,756 (2007: 9,305,276,756) ordinary shares of HK$0.01 each	**93,053**	93,053

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

	Number of shares in issue	Issued share capital *HK$'000*	Share premium account *HK$'000*	Total *HK$'000*
At 1 January 2007	9,014,321,700	90,143	881,476	971,619
Conversion of a convertible note	290,955,056	2,910	25,804	28,714
At 31 December 2007, 1 January 2008 and 31 December 2008	9,305,276,756	93,053	907,280	1,000,333

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31. SHARE CAPITAL *(continued)*

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 930,527,675 shares will be available for issue under the Scheme, which represented 10% 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.

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 27 of the financial statements.

Company

	Note	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2007		881,476	839,108	4,152	1,724,736
Issue of shares upon conversion of part of the convertible note		25,804	—	—	25,804
Profit for the year		—	—	32,543	32,543
Proposed final dividend	13	—	—	(27,916)	(27,916)
At 31 December 2007 and at 1 January 2008		907,280	839,108	8,779	1,755,167
Loss for the year		—	—	(5,315)	(5,315)
Proposed final dividend	13	—	—	—	—
At 31 December 2008		**907,280**	**839,108**	**3,464**	**1,749,852**

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.

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33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(i) During the prior year, a principal sum of the convertible note issued by the Company 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.

(ii) During the prior year, the Group's investments in convertible notes amounting to HK$124,200,000 were converted into ordinary shares of certain companies listed on the Stock Exchange.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties *(note 16)* 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	
	2008 *HK$'000*	2007 *HK$'000*
Within one year	767	800
In the second to fifth years, inclusive	553	466
	1,320	1,266

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. The leases for the office properties are negotiated for terms ranged from one to two years.

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

	Group	
	2008 *HK$'000*	2007 *HK$'000*
Within one year	1,246	581
In the second to fifth years, inclusive	655	—
	1,901	581

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35. COMMITMENTS

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

36. 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$9,330,000 (2007: HK$9,206,000);

(b) the Group's investment properties and certain leasehold land and buildings with an aggregate carrying value of HK$61,820,000 (2007: HK$60,938,000); and

(c) corporate guarantees issued by the Company.

37. CONTINGENT LIABILITIES

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

	Company	
	2008	2007
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**518,080**	518,080

At 31 December 2008, the banking facilities granted to the subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of HK$120,000,000 (2007: Nil).

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38. 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 2008 HK$'000	Group 2007 HK$'000
Rental expenses for office premises paid to a substantial shareholder	(i)	581	996
Interest expense paid to a related company	(ii)	—	448

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 ("Mr. Cheung"), a director and a substantial shareholder of the Company, has a beneficial interest in Chongqing.

(ii) The interest expense paid to a related company in the prior year was in respect of the convertible note issued by the Company to Timmex Investment Limited, which is 100% beneficially owned by Mr. Cheung.

(b) Compensation of key management personnel of the Group:

	2008 HK$'000	2007 HK$'000
Short term employee benefits	21,255	21,373
Post-employment benefits	60	60
Long term employee benefits	90	135
Total compensation paid to key management personnel	21,405	21,568

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

The related party transactions in respect of items (a)(i) and (a)(ii) above also constitute connected transactions under the Listing Rules.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, include equity investments, investments in convertible notes, loans receivable, trade receivables, trade payables, bank loans, 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, equity 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 approximately HK$101 million (2007: HK$296 million) as at 31 December 2008. Assuming that the balances are held at a constant level and there is an average decrease of 25 (2007: 75) basis points interest rate for the year ended 31 December 2008, the interest income of the Group will be decreased by HK$0.3 million (2007: HK$2.2 million).

Foreign currency risk

The Group has transactional currency exposure as all the sales and purchases of goods were denominated in United States dollars whilst 13% (2007: 16%) of the operating expenses for the year were denominated in United States dollars.

The Group has translational currency exposure because 61% (2007: 32%) of the cash and bank balances were denominated in United States dollars and 17% (2007: 21%) of the listed 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 listed equity investments at fair value through profit or loss denominated in Singapore dollars only represented approximately 3.2% (2007: 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.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

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/loss before tax. There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in Singapore dollar exchange rate %	Increase/ (decrease) in profit/loss before tax *HK$'000*
2008		
If Hong Kong dollar weakens against Singapore dollar	**5.0%**	**3,133**
If Hong Kong dollar strengthens against Singapore dollar	**(5.0%)**	**(3,133)**
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)

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 receivables 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 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 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 2008	High/low 2008	31 December 2007	High/low 2007
Hong Kong - Hang Seng Index	14,387	27,853 10,676	27,813	31,958/ 18,659
Singapore - Straits Times Index	1,762	3,475 1,474	3,482	3,906/ 2,932

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Price risk *(continued)*

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. For the purpose of this analysis, for the available-for-sale equity investments the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact on the income statement.

The sensitivity analysis is made based on a reasonably possible 25% decrease in Hang Seng Index of Hong Kong (2007: 6.5%) and 22% decrease in Straits Times Index of Singapore (2007: 4%) anticipated as at the year end date and an estimated value of beta of the investment portfolios of the Group.

	Carrying amount of listed equity investments *HK$'000*	Increase in loss before tax *HK$'000*	Decrease in other components of equity *HK$'000*
2008			
Listed equity investments at fair value through profit or loss listed in:			
Hong Kong	314,878	(69,179)	—
Singapore	62,652	(18,688)	—
Available-for-sale investment listed in Hong Kong	495,767	—	(229,813)
Total		(87,867)	(229,813)

	Carrying amount of listed equity investments *HK$'000*	Decrease in profit before tax *HK$'000*	Decrease in other components of equity *HK$'000*
2007			
Listed 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	2,888,162	—	(482,580)
Total		(40,025)	(482,580)

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

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39. 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:

	2008		
	On demand	Less than 3 months	Total
	HK$'000	*HK$'000*	*HK$'000*
Other payables	2,613	—	2,613
Interest-bearing bank loans	—	120,087	120,087
	2,613	120,087	122,700

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

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 for managing capital during the years ended 31 December 2008 and 31 December 2007.

Notes to Financial Statements

31 December 2008

39. 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 loans, trade payables, other payables and accruals, less cash and cash equivalents. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2008 *HK$'000*	2007 *HK$'000*
Interest-bearing bank loans	120,000	—
Trade payables	—	1,046
Other payables and accruals	21,866	24,482
Less: Cash and cash equivalents	(89,731)	(182,838)
Net debt	52,135	(157,310)
Equity attributable to equity holders of the Company	1,944,080	5,098,106
Gearing ratio	2.7%	Nil

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 27 March 2009.

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				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CONTINUING OPERATIONS					
REVENUE	**(219,185)**	107,819	122,847	(11,098)	138,323
PROFIT/(LOSS) BEFORE TAX	**(726,678)**	287,694	289,976	(46,649)	248,452
Tax	**3,012**	(22,412)	(20,172)	(741)	(5,368)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(723,666)**	265,282	269,804	(47,390)	243,084
DISCONTINUED OPERATIONS					
Profit/(loss) for the year from discontinued operations	**—**	—	539,340	37,247	(2,740)
PROFIT/(LOSS) FOR THE YEAR	**(723,666)**	265,282	809,144	(10,143)	240,344
Attributable to:					
Equity holders of the Company	**(723,666)**	265,282	780,923	(26,579)	223,953
Minority interests	**—**	—	28,221	16,436	16,391
	(723,666)	265,282	809,144	(10,143)	240,344

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	**12,076**	18,651	16,389	134,054	99,036
Prepaid land lease payments	**63,925**	96,943	72,934	143,564	123,527
Interests in associates	**1,019,405**	1,019,915	899,310	839,451	659,930
Available-for-sale investments	**511,224**	2,916,046	1,271,198	20,000	70,000
Other non-current assets	**23,191**	28,660	72,476	168,047	31,595
Current assets	**486,449**	1,076,755	1,054,697	1,292,381	1,448,720
Current liabilities	**(170,325)**	(57,236)	(168,779)	(246,002)	(129,938)
Net current assets	**316,124**	1,019,519	885,918	1,046,379	1,318,782
Non-current liabilities	**(1,865)**	(1,628)	(977)	(58,171)	(66,190)
Minority interests	**—**	—	—	(209,306)	(223,394)
Equity attributable to equity holders of the Company	**1,944,080**	5,098,106	3,217,248	2,084,018	2,013,286