2012 ANNUAL REPORT

YUGANG

YUGANG INTERNATIONAL LIMITED

Stock Code: 613

Contents

Corporate Information

BOARD OF DIRECTORS

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 Director

Mr. Lee Ka Sze, Carmelo

Independent Non-Executive Directors

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

COMMITTEES

Audit Committee

Mr. Luk Yu King, James *(Chairman)*
Mr. Lee Ka Sze, Carmelo
Mr. Leung Yu Ming, Steven
Mr. Ng Kwok Fu

Nomination Committee

Mr. Cheung Chung Kiu *(Chairman)*
Mr. Leung Yu Ming, Steven
Mr. Ng Kwok Fu

Remuneration Committee

Mr. Leung Yu Ming, Steven *(Chairman)*
Mr. Cheung Chung Kiu
Mr. Ng Kwok Fu

Executive Committee

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

AUTHORISED REPRESENTATIVES

Mr. Cheung Chung Kiu
Mr. Yuen Wing Shing

COMPANY SECRETARY

Mr. Albert T.da Rosa, Jr.

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

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

LEGAL ADVISERS

Bermuda:

Conyers Dill & Pearman

Hong Kong:

Woo Kwan Lee & Lo
Cheung Tong & Rosa Solicitors

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Bank Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE ADDRESS

http://www.yugang.com.hk

STOCK CODE

613

Chairman's Statement and Management Discussion and Analysis

Dear shareholders,

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 2012.

RESULTS

For the year ended 31 December 2012, the Group reported a consolidated net profit attributable to shareholders of HK$125.8 million as compared with a net loss of HK$670.4 million for the last corresponding year. It was mainly attributable to an impairment loss of only HK$10.8 million in an available-for-sale investment and fair value gains of HK$30.5 million on listed equity investments at fair value through profit or loss following the rebound of financial markets for the current year, as compared to a very substantial impairment loss of HK$548.8 million in an available-for-sale investment and significant fair value losses of HK$169.6 million in respect of listed equity investments at fair value through profit or loss recorded for the last corresponding year.

The basic earnings per share for the year was HK1.35 cents whereas a basic loss per share of HK7.2 cents was recorded for the last corresponding year.

BUSINESS REVIEW

2012 was a challenging year for the economy of Hong Kong as it had to cope with various macro headwinds. The local economy had undergone a slow growth as the deteriorating European debt crisis weakened the global economy and severely slowed down global trade as well as Hong Kong's external demand.

Although local stock market plunged in May last year due to investors' fear of Greece's exit from Euro zone, the financial market conditions stabilized eventually following European Central Bank's announcement of implementing monetary measures to support Euro dollars. Together with the U.S. Federal Reserve's implementation of an open-ended quantitative easing monetary policy, the local stock market rallied in the second half year with Hang Seng Index climbing around 22% over last year. The Group's treasury investment was therefore benefited to record unrealized fair value gains on securities investment as compared with substantial unrealized fair value losses in the last corresponding year.

On the other hand, due to excessive liquidity and the ultra-low interest rates, Hong Kong's property market underwent a surging irrationally. It resulted in a rising inflation which had in turn driven up the rental prices. The Group's property investment business therefore benefited with a soaring of rental price and higher occupancy rate, together with an appreciation of property valuation.

Property Investment and Infrastructure Business

Property Investment Business

The property investment business of the Group was carried out through an investment in a substantial interest in an associate, Y. T. Realty Group Limited ("Y. T. Realty"), whose shares are traded on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal investment properties held by Y. T. Realty include Century Square and Prestige Tower, both are situated in the core districts of Central and Tsimshatsui respectively.

Despite a slow growth of Hong Kong's economy for the year, the consumption remained strong and grew rapidly. With the growing number of Mainland tourists visiting Hong Kong, the demand for office and retail space remained strong in prime location, notwithstanding the Mainland tourists had reduced their lavish spending during the year. In addition, the transformation of the investment properties of Y. T. Realty into an up-market fashion hub had successfully attracted several famous brands at favorable rent. Therefore, Y. T. Realty recorded a healthy increase in rental income and rental rates, whilst maintaining high overall occupancy rate of over 98% for the year. The gross rental income of Y. T. Realty for the year was HK$173.4 million, representing a growth of 15.6% over the last corresponding year.

Chairman's Statement and Management Discussion and Analysis

In addition, the investment properties of Y. T. Realty were revalued by an independent professional valuer and recorded a fair value gain of HK$196.1 million at 31 December 2012 (2011: HK$301.1 million). The net profit after tax of Y. T. Realty was HK$475.2 million for the year, representing an increase of 10.3% from the last corresponding year.

Infrastructure Business

The infrastructure business of the Group, comprising investments in tunnels, transports and logistic operations, is carried out through The Cross-Harbour (Holdings) Limited ("Cross-Harbour"), being an associate of Y. T. Realty, the shares of which are traded on the main board of the Stock Exchange. Cross-Harbour currently holds 50% equity interests in Western Harbour Tunnel Company Limited and 39.5% equity interests in Tate's Cairn Tunnel Company Limited, both of which persistently generated a stable growth of toll income.

The performance of tunnel operations for the year was satisfactory as the domestic consumption remained robust. The low unemployment, higher income and positive wealth effect of soaring property price had stimulated a robust growth of local consumption during the year. The tunnel operations were therefore benefited with a growth of the average daily throughput as well as toll income for the year.

The net profit after tax and non-controlling interests of Cross-Harbour for the year was HK$403.8 million, representing an increase of 69.3% from the last corresponding year. It was mainly attributable to a satisfactory growth of tunnels, transports and logistic operations and a rebound of the treasury investment giving rise to a corresponding fair value gain for the year.

Treasury Investment

The local stock market was quite volatile during the first half of 2012 and rallied in the second half of the year. The European sovereign debt crisis remained a key risk factor causing a volatile fluctuation of the stock market for the year. With the implementation of successive quantitative easing programs by European Central Bank and the Federal Reserve of U.S. in the second half year, Hang Seng Index soared to above 23,000 points and climbed 22% over the last year.

As mentioned in the last published annual report, the performance of the Group's treasury investment was positively correlated with the performance of the stock market. The Group's treasury investment benefited from the stock market rally with a fair value gain of HK$30.5 million on the securities investment recorded for the year.

OUTLOOK AND STRATEGY

Looking into 2013, the Group is cautious even though the economy of Hong Kong is on a solid track of recovery. Mainland's economic recovery is expected to be sustainable as the central government of PRC will continue to implement proactive policy to support economic growth. However, the outlook for the external sector remains lackluster as global headwinds are still strong. With uncertainty surrounding fiscal policy in the U.S. and the lingering of European sovereign debt crisis, the recovery path of Hong Kong economy may be bumpy and the stock market may remain choppy. Therefore, the Group is cautious about its operating profit in 2013 as it is likely to be fluctuated in line with the performance of the financial market both in terms of direction and the magnitude it moves.

The Group has sustained its focus on strategic expansion and diversification of business in prior years which has given the Group increased confidence in our long-term business prospects. The Group will continue to strengthen its core competencies in the main business segments as well as to explore related business opportunities. However, the Group will adopt a prudent approach in pursuing a long-term strategic growth that give the Group sound financial and management capabilities.

Chairman's Statement and Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group recorded an overall negative revenue of HK$2.4 million for the year. It was mainly attributable to a loss of HK$4.4 million on disposal of listed equity investments for the year.

Net Asset Value

The consolidated net asset value of the Group as at 31 December 2012 was HK$2,503.0 million, representing an increase of HK$474.5 million or 23.4%. The consolidated net asset value per share of the Group as at 31 December 2012 was HK$0.269. The Group's total assets and total liabilities were HK$2,725.1 million and HK$222.1 million respectively.

Capital Structure

The Group's capital expenditure and investments were mainly funded from cash on hand, internal cash generation and bank borrowings.

The Group adopts conservative treasury policies in cash and financial management. Cash is generally placed in short-term deposits mostly denominated in U.S. dollars and Hong Kong dollars. The Group does not use any financial instruments for hedging purpose.

Liquidity and Financial Resources

The liquidity of the Group decreased after a substantial amount of fair value loss on the Group's securities investment was recorded in the last financial year. Together with an increase of short-term bank loans, the current ratio of the Group dropped to 0.9 for the year.

The bank borrowings increased to HK$170.0 million at 31 December 2012. All bank loans were denominated in Hong Kong dollars and were drawn in short-term and revolving in nature. The Group had unutilized short-term banking facilities of approximately HK$92.0 million as at 31 December 2012.

As at 31 December 2012, the cash and cash equivalents of the Group were HK$5.5 million and the cash and listed equity investments of the Group in aggregate was HK$177.3 million which could cover the bank borrowings.

Gearing Ratio

As at 31 December 2012, the gearing ratio of the Group, measured by dividing the net debt to shareholders' equity, increased to 7.5% (2011: 6.1%). Net debt was interest-bearing bank borrowings, other payables and accruals, net of cash and cash equivalents.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2012.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's major source of income, expenses, major assets and bank deposits were denominated in Hong Kong dollars and U.S. dollars. The Group had certain securities investment denominated in foreign currencies which represented only 3.6% of the Group's net asset value. The Group's exposure to fluctuations in exchange rates is therefore minimal and the Group did not have any related hedging instruments.

Chairman's Statement and Management Discussion and Analysis

Charges on Group Assets

As at 31 December 2012, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK$75.5 million and time deposits of approximately HK$9.4 million as securities for general banking facilities granted to the Group.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

The Group persistently holds two significant investments for long term, which are an investment in an associate and an available-for-sale investment.

The Group held an equity interest in C C Land Holdings Limited ("C C Land", the shares of which are listed on the main board of the Stock Exchange) which was classified as an available-for-sale investment of the Group. The carrying value of C C Land was stated in fair value which was HK$708.3 million as at 31 December 2012 (2011: HK$366.1 million). A fair value gain of HK$332.0 million on C C Land was therefore recorded for the year. This amount of fair value gain was accounted for in a reserve account and recognised as other comprehensive income in the Consolidated Statement of Comprehensive Income. The Group received a scrip dividend income of HK$10.2 million from C C Land (2011: cash dividend of HK$10.2 million) and a special interim dividend in form of specie distribution of the shares of Qualipak International Holdings Limited ("Qualipak", the shares of which are listed on the main board of the Stock Exchange) at a fair value of HK$20.7 million that was resulted from a spin-off of Qualipak from C C Land during the year.

The Group held a substantial equity interest in Y. T. Realty which was classified as an investment in an associate. The carrying value of Y. T. Realty was HK$1,714.3 million as at 31 December 2012. The net profit after tax of Y. T. Realty for the year was HK$475.2 million and the Group's share of profit of an associate was HK$162.2 million (2011: HK$147.1 million).

Save as disclosed above, there was no significant investment held, material acquisitions or disposals of subsidiaries during the year. There was no present plan for material investments or acquisition of material capital assets as at the date of this annual report.

Comment on Segment Information

Discussion and comments on the Group's segments, including the changes and development, were covered in the Business Review section of the Management Discussion and Analysis. The segment information and operating results were set out in note 4 of the Notes to Financial Statements in this annual report.

Save as disclosed herein, there were no significant changes in the market conditions, new products and services introduced that had significantly affected the Group's performance.

Chairman's Statement and Management Discussion and Analysis

OTHER INFORMATION

Human Resources Practices

The Group employed a total of 43 staffs as at 31 December 2012.

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 levels 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 and inflation rate. In addition, performance-based assessment such as individual's potential and contribution to the Group, time commitment, duties and responsibilities undertaken, employment conditions elsewhere in the Group and salaries paid by comparable companies will all be considered.

The Group also 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.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year ended 31 December 2012.

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, 26 March 2013

Corporate Governance Report

Dear shareholders

On behalf of the board ("Board") of directors ("Directors") of Yugang international Limited (the "Company"), I am pleased to present the Corporate Governance Report which illustrates the corporate governance practices of the Company during the financial year of 2012.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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, upholding accountability and transparency, and balancing the interests of shareholders, investors and employees as a whole.

The Company had fully complied with all code provisions of the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) during the period of 1 January 2012 to 31 March 2012. Except for deviation of code provision D.1.4 with reasons explained hereunder, the Company had complied with code provisions set out in the new edition of Corporate Governance Code contained in Appendix 14 to the Listing Rules during the period of 1 April 2012 to 31 December, 2012.

In respect of code provision D.1.4, the Company does not have formal letters of appointment for Directors setting out key terms and conditions of their appointment. The Company is of the view that the current arrangement is more appropriate and flexible, particularly in light of the current business activities and operational structure of the Company. All Directors have been serving the Company for sufficiently long period of time and a clear understanding of terms and conditions of their appointment already exists between the Company and Directors. Additionally, each Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years pursuant to Bye-laws of the Company ("Bye-laws").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules and its amendments from time to time as its own code of conduct regarding securities transaction by Directors. 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 accordingly.

Following specific enquiry by the Company, each Director confirmed that throughout the accounting period covered by the annual report, they have complied with the required standard set out in the Model Code.

The Company has also adopted the code of conduct regarding securities transactions by relevant employees on terms no less exacting than the required standards set out in the Model Code.

Corporate Governance Report

THE BOARD

A. Board Composition

The Company is headed by an effective Board which collectively responsible for promoting the success of the Company, and to balance the long-term interest of shareholders and stakeholders.

The Board currently comprises nine Directors, of whom five are executive Directors, one non-executive Director and three independent non-executive Directors. Such balanced composition of executive and non-executive Directors ensures a strong independent element on the Board, and provides adequate check and balance to safeguarding the interest of shareholders and the Company as a whole. All Directors have a balance of skills and experience appropriate for the requirement of the business of the Company. They are experienced personnel with academic and professional qualifications in accounting, legal and business management and at least one of whom has appropriate professional qualification of accounting or related financial management expertise.

Mr. Zhang Qing Xin, an executive Director, is the father of the chairman, Mr. Cheung Chung Kiu. Save as disclosed herein, none of Directors has any relationship (including financial, business, family or other material/relevant relations) between each other.

The list of Directors and their biographical details including relationship with members of the Board, senior management and substantial shareholders are set out in the section headed "Profiles of Directors and Senior Management" of the annual report.

The following chart illustrates the current Board composition including Board Committees:

Board of Directors

Executive Directors
- Cheung Chung Kiu (Chairman)
- Yuen Wing Shing (Managing Director)
- Zhang Qing Xin
- Lam Hiu Lo
- Liang Kang

Non-Executive Director
- Lee Ka Sze, Carmelo

Independent Non-Executive Directors
- Luk Yu King, James
- Leung Yu Ming, Steven
- Ng Kwok Fu

Audit Committee
- Luk Yu King, James (Chairman)
- Lee Ka Sze, Carmelo
- Leung Yu Ming, Steven
- Ng Kwok Fu

Remuneration Committee
- Leung Yu Ming, Steven (Chairman)
- Cheung Chung Kiu
- Ng Kwok Fu

Nomination Committee
- Cheung Chung Kiu (Chairman)
- Leung Yu Ming, Steven
- Ng Kwok Fu

Executive Committee
- Cheung Chung Kiu (Chairman)
- Yeun Wing Shing
- Zhang Qing Xin
- Lam Hiu Lo
- Liang Kang

Corporate Governance Report

B. Chairman and Managing Director

The role of the chairman and Managing Director are separately assumed and performed by Mr. Cheung Chung Kiu and Mr. Yuen Wing Shing respectively and their responsibilities are clearly identified in writing and segregated. There is a clear distinction between the chairman's responsibility for management of the Board and Managing Director's responsibility for running the day-to-day business of the Company in order to ensure a balance of power and authority. The key responsibilities of the chairman and Managing Director are set out hereunder:

Key Responsibilities of the Chairman

Mr Cheung Chung Kiu was appointed as the chairman of the Board in 1993 and his key responsibilities include the followings:

1. To provide leadership for and overseeing the functioning of the Board to ensure its effectiveness;
2. To sketch business development plans, formulate overall strategies, objectives and policies of the Company;
3. To draw up and approve the agenda for each Board meeting and each Director is properly briefed on issues arising at Board meetings and that each Director is giving an opportunity to express his view at Board meetings;
4. To ensure all Directors will receive, in a timely manner, adequate information which are accurate, clear, complete and reliable;
5. To ensure good corporate governance practices and procedures are established; and
6. To ensure appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.

Key Responsibilities of Managing Director

Mr. Yuen Wing Shing was appointed Managing Director of the Company in 2005 who takes the role of CEO as described in Appendix 14 to the Listing Rules. The primary role and key responsibilities of CEO are as follows:

1. To provide leadership for the implementation of the Company's objectives, policies and strategies;
2. To be responsible for the day-to-day management of the Company;
3. To be responsible for setting up budgets, monitoring performance of management and effectiveness of the Company;
4. To be responsible for establishing and maintaining proper internal control system of the Group;
5. To ensure such actions is taken as is necessary to secure the timely and effective implementation of objectives, policies and strategies set by the Board and other decisions taken by or on behalf of the Board; and
6. To ensure the Company's operational divisions and departments function effectively.

Corporate Governance Report

C. Independent Non-executive Directors ("INEDs")

In accordance with Rule 3.10 of the Listing Rules, Mr. Luk Yu King, James, Mr. Leung Yu Ming, Steven and Mr. Ng Kwok Fu are appointed the INEDs of the Company, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. They have made a positive contribution to the development of the Company's strategy and policies by giving independent, constructive and informed comments.

The Company has obtained written confirmation of independence from all INEDs pursuant to Rule 3.13 of the Listing Rules. On 4 December 2012 and 22 March 2013, the Nomination Committee has assessed and reviewed the individual INED's confirmation of independence based on the independent criteria as set out in Rule 3.13 of the Listing Rules, and affirmed that all INEDs remained independent.

D. Responsibilities of Directors

Every Director is required to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. In-house briefings on regulatory updates and relevant continuous professional development seminars will be arranged at the Company's expenses.

The functions of non-executive Directors have included the functions specified in Code Provision A.6.2 (a) to (d) of the Listing Rules.

Every Director is aware of his obligation to give sufficient time and attention to the affairs of the Company and should not accept the appointment if he cannot do so. Every Director has satisfactory attendance rates at Board meetings, committee meetings and annual general meetings. In addition, each INED and non-executive Director is aware of his obligation to make a positive contribution to the development of the Company's strategy and policies by giving independent, constructive and informed comments.

E. Directors' Attendance and Time Commitment

The Board members meet regularly to review and discuss the overall strategy, operational and financial performance of the Company. Normally four regular meetings of the full Board will be held at quarterly intervals and special ad hoc 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 executive Directors only.

In addition, the Company has established various Board committees of the company including Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee. The members of the committees shall meet at least annually to conduct business of the committees.

Moreover, during the year under review, the chairman of the Board held a meeting with non-executive Directors and INEDs without the presence of the executive Directors.

Corporate Governance Report

During the year of 2012, the attendance records of Directors at regular Board meetings, Board committee meetings and the 2012 annual general meeting are set out hereunder:

	Number of meetings attended/held				
	Regular Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meeting	2012 Annual General Meeting
Number of meetings held	4	3	1	1	1
Executive Directors					
Cheung Chung Kiu	4 out of 4	N/A	1 out of 1	1 out of 1	1
Yuen Wing Shing	4 out of 4	N/A	N/A	N/A	1
Zhang Qing Xin	4 out of 4	N/A	N/A	N/A	1
Lam Hiu Lo	4 out of 4	N/A	N/A	N/A	1
Liang Kang	4 out of 4	N/A	N/A	N/A	1
Non-Executive Directors					
Lee Ka Sze, Carmelo	4 out of 4	3 out of 3	N/A	N/A	1
Wong Yat Fai	4 out of 4	N/A	N/A	N/A	1
Independent Non-Executive Directors					
Luk Yu King, James	4 out of 4	3 out of 3	N/A	N/A	1
Leung Yu Ming, Steven	4 out of 4	3 out of 3	1 out of 1	1 out of 1	1
Ng Kwok Fu	4 out of 4	3 out of 3	1 out of 1	1 out of 1	1

Upon reviewing (i) the attendance rates of each Director on annual general meeting, regular Board meetings and their respective board committee meetings; (ii) written confirmation of Directors regarding the number and nature of offices held in public companies or organisations and other significant commitments; (iii) written confirmation of Directors to give sufficient time and attention to the affairs of the Company; the Board is of the view that all Directors' time commitment to the Company were satisfactory.

F. Induction and Continuous Professional Development of Directors

Every newly appointed Director had/will receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently further briefings and continuous professional development will be arranged if necessary, to ensure that he has a proper understanding of the Company's operations and business and that he is fully aware of his responsibilities under statute and common law, the Listing Rules and all other applicable regulations and governance.

All Directors have been updated on the latest developments of Listing Rules and other applicable laws and regulations related to Directors' duties and responsibilities. "A Guide on Directors' Duties" and "Guidelines for the Directors" published by the Companies Registry of Hong Kong, and "A Guide for Independent Non-executive Directors" published by the Hong Kong Institute of Directors have all been sent to each Director and/or INED.

Corporate Governance Report

The Company admitted that Directors' training is an ongoing process. The Company Secretarial Department have arranged some training courses as well as regularly circulated details of training courses and encouraged Directors to attend these courses at the Company's expenses. Directors are requested to provide records of training to the Company Secretarial Department for record. All Directors confirmed that they have complied with the Code Provision A.6.5 to the Listing Rules by attending various continuous professional development seminars/in-house briefings/reading relevant materials relevant to Directors' duties and responsibilities.

Directors' Participation in Continuous Professional Development Training

Name	Area of Training					
	Corporate Governance/ Regulatory Updates		Operation/Industry		Finance	
	Seminar/ Conference	E-learning/ Reading Materials	Seminar/ Conference	E-learning/ Reading Materials	Seminar/ Conference	E-learning/ Reading Materials
Cheung Chung Kiu	√	√				
Yuen Wing Shing	√		√		√	
Zhang Qing Xin	√	√	√			
Lam Hiu Lo			√		√	
Liang Kang	√	√	√		√	
Lee Ka Sze, Carmelo	√		√			
Luk Yu King, James	√		√		√	
Leung Yu Ming, Steven	√				√	
Ng Kwok Fu	√		√			

G. Supply of and Access to Information

The Board works effectively and Directors are provided with appropriate information in a timely manner which enables them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

In addition, notice of Board meetings together with the proposed agenda will be given to all Directors at least 14 days before each Board meeting and Directors are given an opportunity to include matters in the agenda. Agendas and accompanying Board papers will be provided to Directors not less than three days before the Board meeting.

Minutes of Board/Board Committee meetings with details of matters considered and decisions reached, including any concerns raised by Directors or dissenting views expressed, after circulation for comments by Directors, are kept by the company secretary and are open for inspection by Directors.

All Directors have access to the advices and services of the company secretary to ensure necessary Board procedures and all applicable rules and regulations are followed. All Directors are regularly updated on governance and regulatory matters. Directors, upon reasonable request, have access to independent professional advice in appropriate circumstances at the Company's expenses.

The Company has arranged appropriate insurance cover in respect of legal action against Directors.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will not be dealt with by way of circulation or by a committee (except for an appropriate Board committee set up for that purpose pursuant to a resolution passed in a Board meeting) but a Board meeting will be held. INED who, and whose associates, have no material interest in the transaction will be present at such Board meeting.

Corporate Governance Report

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

The Company adopts a formal, considered and transparent procedure for the appointment of new Directors to the Board and has plans in place for orderly succession for appointments to the Board. Pursuant to Code Provision A.5.1, the Nomination Committee comprising a majority of independent non-executive Directors has been established on 30 March 2012. The Nomination Committee is responsible for making recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors, subject to election or re-election by shareholders of the Company at the general meeting. All Directors submitted for election or re-election have been accompanied by a 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.

Pursuant to Bye-laws, all non-executive Directors are appointed for a specific term of not more than three years expiring at the conclusion of the annual general meeting of the Company to be held in the third year following the year of appointment. All Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, is required to retire by rotation once every three years and that one-third of 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.

On a meeting of the Nomination Committee held on 4 December 2012 and 22 March 2013, the Committee nominated the re-appointment of Mr. Cheung Chung Kiu, Mr. Luk Yu King, James and Mr. Ng Kwok Fu and to stand for election by shareholders at the forthcoming annual general meeting. The nomination was made in accordance with the nomination policy of the Company and their biographical details will be set out in the circular to shareholders to be sent together with the 2012 annual report.

On 30 March 2012, Mr. Cheung Chung Kiu was appointed the chairman of the Nomination Committee with other committee members including Mr. Leung Yu Ming, Steven and Mr. Ng Kwok Fu.

On 30 March 2012, Mr Leung Yu Ming, Steven, an INED, was appointed the chairman of Remuneration Committee, in place of Mr. Cheung Chung Kiu, the chairman and an executive Director, in order to comply with the amended requirement of Rule 3.25 to the Listing Rules. Mr. Cheung Chung Kiu remains as a member of the Remuneration Committee.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has adopted a formal and transparent procedure for setting policy on executive Directors' remuneration and all Directors' remuneration packages.

A. Remuneration Policy

The Company's remuneration policy is to ensure fair and competitive packages based on business needs and industry practice as well as sufficiently enough to attract and retain Directors to run the Company successfully without paying more than necessary. The Company aims to provide incentives to Directors, senior management and employees to perform at their highest levels 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, inflation, employment conditions elsewhere in the Group and salaries paid by comparable companies. 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 deciding their own remuneration.

Corporate Governance Report

B. Remuneration Committee

The Company established the Remuneration Committee on 30 June 2005. On 30 March 2012, the Board adopted a revised terms of reference of the Remuneration Committee which include all specific duties set out in the revised Code Provision B.1.2 of the Listing Rules. In compliance with Rule 3.25 of the Listing Rules, Mr. Leung Yu Ming, Steven, an INED, was appointed the chairman of Remuneration Committee in place of Mr. Cheung Chung Kiu with effect from 30 March 2012. Mr. Cheung Chung Kiu remains as a member of the committee with other member also include Mr. Ng Kwok Fu.

The Remuneration Committee will consult the chairman and/or Managing Director about the remuneration proposals for executive Directors, as well as consider other relevant factors including the corporate goals and objectives of the Company. The Company has provided sufficient resources for them to perform the duties and they may access to professional advice if considered necessary.

The Remuneration Committee has convened one meeting during the financial year of 2012. A summary of work performed by the Remuneration Committee is set out as follows:

(a) to make recommendation to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) to make recommendation to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(d) to make recommendation to the Board on the remuneration of non-executive Directors;

(e) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive (if any);

ACCOUNTABILITY AND AUDIT

A. Directors' Responsibility for Financial Reporting

The Board acknowledges the responsibility to present a balanced, clear and comprehensive assessment of the Group's performance, position and prospect. The Board further acknowledges the responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports and other financial disclosures in accordance with the Listing Rules and other statutory requirements and applicable accounting standards, so as to give a true and fair view of the state of affairs of the Company. The Directors also ensure the timely publication of the financial statements of the Group by publishing the annual and interim reports within 3 months and 2 months respectively after the end of the relevant periods to provide shareholders and stakeholders with transparent and timely financial information.

Management undertakes to provide sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before the Board for approval. Since April 2012 onwards, management have provided all members of the Board with monthly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties under the relevant requirements of the Listing Rules.

Corporate Governance Report

In preparing the financial statements for the year ended 31 December 2012, the Board:

(a) adopted HKFRSs, which conform to the International Financial Reporting Standards;

(b) selected suitable accounting policies and applied them consistently;

(c) made prudent and reasonable judgments and estimates;

(d) prepare the accounts on a going concern.

B. Internal Control

The Board acknowledges the responsibilities of establishing, maintaining and operating sound and effective internal controls to safeguard shareholders' investment and the Company's assets. The Group's internal controls comprise a well-established organizational structure, a comprehensive budgeting, reporting, policies and procedures, aims to identify and manage risks that could adversely hinder the achievement of the business objectives of the Company, provide reasonable, albeit not absolute, assurance against failure in operational system, material error, loss or fraud to the Company.

An annual review on the effectiveness of the internal control system of the Group had been conducted by the Board and reviewed by the Audit Committee, covering all material controls, including financial, operational and compliance control and risk management functions. The annual review had, in particular, considered the adequacy of resources, staff qualifications and experience, training programmes and budgets of the Company's accounting and financial reporting function.

The Board is of the view that, the internal control system of the Group for the year under review and up to the date of issuance of the annual report, is sound and sufficient to safeguarding the interests of shareholders and assets of the Company. 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.

C. Code of Conduct

The Company considers that ethical corporate culture and employees' honesty and integrity are of vital importance in order to ensure the Company's reputation and that it will not be tarnished by dishonesty, disloyalty or corruption. The Company therefore adopted and formulated the Code of Conduct, setting out a serious of defined ethical standards of behaviour and guidelines for employees to follow.

D. Audit Committee

The Company established the Audit Committee on 30 June 2005 which is chaired by Mr. Luk Yu King, James, with other members including Mr. Lee Ka Sze, Carmelo, Mr. Leung Yu Ming, Steven and Mr. Ng Kwok Fu. The composition of the Audit Committee comprises a majority of INEDs with diversified industry experience, particularly in accounting, legal, commercial and management sectors. The chairman has appropriate professional qualifications and experiences in accounting matters. On 30 March 2012, the Board adopted a revised terms of reference of the Audit Committee which include all specific duties set out in the revised Code Provision C.3.3 of the Listing Rules.

Corporate Governance Report

The Audit Committee has been provided with sufficient resources to perform its duties. The Audit Committee meets regularly since its establishment and three meetings were held in 2012. Full minutes of Audit Committee meetings were kept by the company secretary. Draft and final version of minutes of the Audit Committee meetings were sent to all members of the committee for comments and records within a reasonable time.

The works and duties performed by the Audit Committee during the year of 2012 can be summarised as follows:

(a) to review the annual financial statements of the Company and its subsidiaries for the year ended 31 December 2012 and the interim financial statements for the six-month ended 30 June 2012; and to review significant financial reporting judgments contained in them;

(b) to review, with management and external auditors, the accounting policies and practices adopted by the Company;

(c) to make recommendations to the Board regarding the re-appointment of the Company's external auditors, their remuneration and terms of engagement;

(d) to review and monitor the auditors' independence and objectivity and effectiveness of the audit process;

(e) to review the Company's financial control, internal control and risk management system.

Auditors' Remuneration

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

Services rendered	Fees paid/ payable *(HK$)*
Audit fee	1,290,000
Non-audit Fee *(Note)*	351,800
Total:	1,641,800

Note: non-audit fee includes an interim result advisory fee of HK$226,800 and tax compliance service fee of HK$125,000.

DELEGATION BY THE BOARD

A. Management Functions

The Board steers the Company's business direction. The day-to-day management, administration and operation of the Company have been delegated to management. The Executive Committee comprising all executive Directors has an enhanced executive role of management and undertakes full accountability to the Board for the operation of the Group. Directions as to the powers delegated to the Management are clearly identified. The Board shall review the delegation arrangements periodically to ensure they remain appropriate to the Company's need.

Corporate Governance Report

B. Functions reserved to the Board

The Board has reserved the following functions to the Board. Or, the management in dealing with the following functions on behalf of the Board or the Company, prior approval from the Board is required:

(a) To formulate the long-term corporate strategy and setting business development plans;

(b) To declare an interim dividend, to recommend a final dividend or to declare or recommend other distribution;

(c) Supervising and monitoring performance of management;

(d) Reviewing the effectiveness of the system of internal control including financial, operational, compliance and risk management;

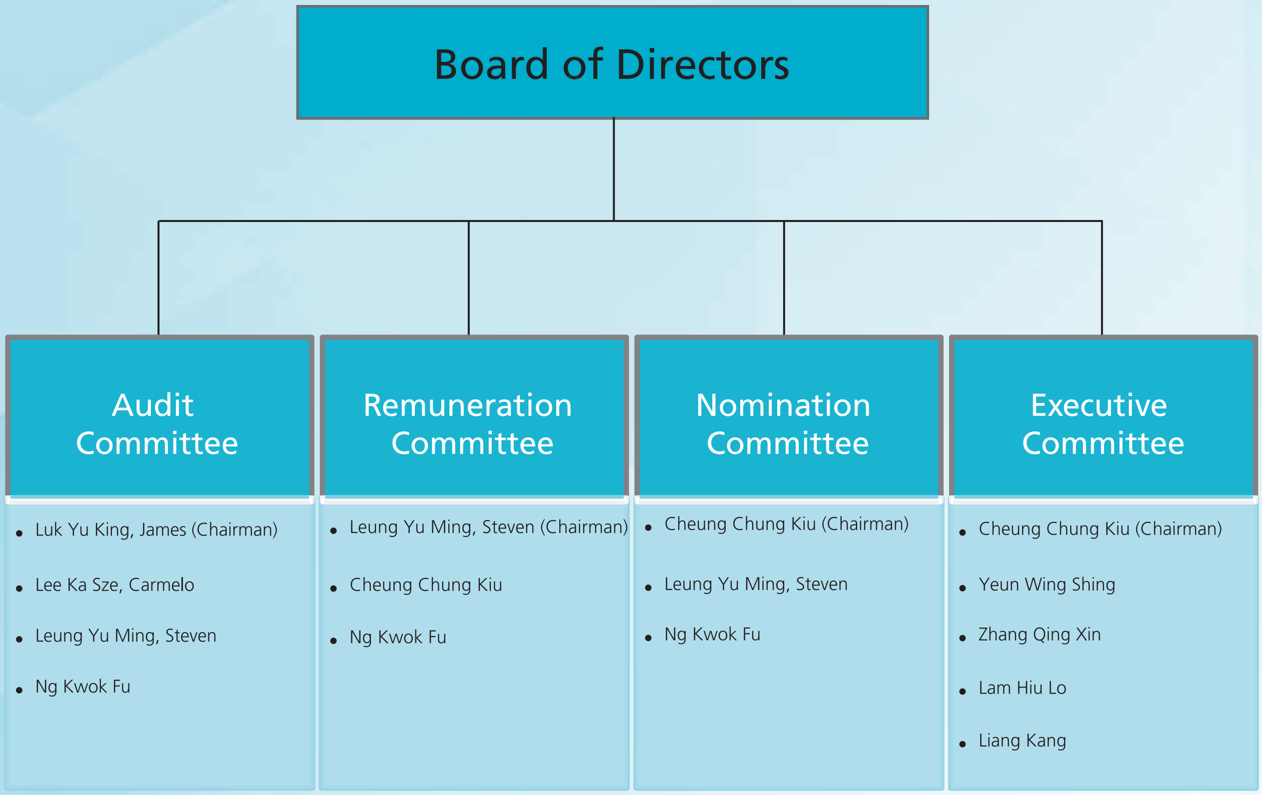
(e) Responsible for the appointment, removal or re-appointment of Directors, senior management and auditors, and determining the remuneration of Directors and senior management based on the recommendations of the Remuneration Committee; and

(f) To recommend to the members of the Company for the winding up of the Company.

C. Board Committees

The Board has established four Board committees to deal with matters, and specific written terms of reference were clearly set out to enable them to perform their functions properly. Board committees are required, unless restricted by laws and regulations, to report back to the Board on their decisions or recommendations on a regular basis.

The following chart illustrates the current Board Committees:



Corporate Governance Report

i) *Audit Committee*

The Audit Committee, comprising a majority of INEDs, was established on 30 June 2005. Detailed particulars are disclosed under the section headed "ACCOUNTABILITY AND AUDIT" on page 15 of this report.

ii) *Remuneration Committee*

The Remuneration Committee, comprising a majority of INEDs, was established on 30 June 2005. Detailed particulars are disclosed under the section headed "REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT" on page 14 of this report.

iii) *Nomination Committee*

The Nomination Committee, comprising a majority of INEDs namely Mr. Cheung Chung Kiu (Chairman), Mr. Leung Yu Ming, Steven and Mr. Ng Kwok Fu, was established on 30 March 2012. During a regular meetings of the committee held on 4 December 2012 and 22 March 2013, the following issues were discussed:

(a) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and to make recommendations to the Board on any proposed changes to the Board (if any) to complement the Company's corporate strategy; and

(b) assessing the independence of INEDs by reference to the independent criteria set out in Rule 3.13 of the Listing Rules.

iv) *Executive Committee*

The Executive Committee, comprising all executive Directors and chaired by the chairman of the Board, was established on 31 December 2004. It takes the management role and is responsible for the day-to-day management, administration and operation of the Company.

C. Corporate Governance Functions

The Board has, by a resolution of the Board dated 28 March 2012, adopted to perform the corporate governance duties as set out in Code Provision D.3.1 of the Corporate Governance Code. On 26 March 2013, the Board has conducted a meeting of the full Board to transact the following corporate governance matters:

(a) to review the Company's policies and practices on corporate governance;

(b) to review the training and continuous professional development of Directors;

(c) to review the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to review the Code of Conduct applicable to employees and Directors; and

(e) to review the Company's compliance with the Corporate Governance Code and applicable disclosure in the Corporate Governance Report.

Corporate Governance Report

COMPANY SECRETARY

The Company engages an external service provider to provide secretarial service and has appointed Mr. Albert T da Rosa, Jr. of Cheung Tong & Rosa Solicitors as its company secretary. Mr. da Rosa is not an employee of the Group and his primary contact person at the Company is Mr. Wong Ka Tai, senior finance and accounting manager of the Company.

During the year ended 31 December 2012, Mr. da Rosa has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communications with shareholders and the investment community, and the value of providing current and relevant information in a timely and appropriate manner. The Board has formulated the Shareholder Communication Policy, aiming to ensure shareholders and investment community are provided with ready, equal and timely access to current and relevant information of the Company, in order to enable the shareholders to have a better understanding on the financial and business operation of the Company, as well as to exercise their rights in a timely and informed manner. The Board will further review the policy regularly to ensure its effectiveness.

The Board endeavours to maintaining an on-going dialogue with shareholders and in particular, use annual general meeting or other general meetings to communicate with shareholders and encourage them to participate in general meetings or, if they are unable to attend meetings, to appoint proxies to attend and vote at the meetings on their behalf. At the annual general meeting held on 18 May 2012, a separate resolution was proposed by the chairman in respect of each substantially separate issue. The notice of 2012 annual general meeting was sent to shareholders on 17 April 2012. The chairman of the Board, the chairman of the Audit and Remuneration Committees and representative from the external auditors have attended the 2012 annual general meeting to answer questions of shareholders. Poll voting has been used for passing all resolutions at annual general meetings since 29 April 2005. Details of the poll voting procedures are clearly explained at the commencement of the meetings. The poll results are posted on the web-sites of the Company and the Stock Exchange on the same day of the poll.

In addition, information may also be communicated to shareholders and the investment community through the following methods:

(a) periodic disclosure through financial reports of the Company, including but not limited to interim and annual reports, financial statements, results announcement etc;

(b) disclosure of information through circulars, announcements, notice of meetings and any other special notices whenever and wherever necessary in accordance with the Listing Rules; and

(c) the Company's website at http://www.yugang.com.hk and HKEx's website at http://www.hkex.com.hk.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Set out hereunder is a summary of shareholders' rights as required to be disclosed pursuant to Code Provision O of the Corporate Governance Code, which are subject to the Bye-laws, Companies Act 1981 of Bermuda and applicable legislation and regulation.

Every year, an annual general meeting will be held by the Company. Further, the Board may whenever it thinks fit call general meetings known as special general meetings.

Shareholders who wish to convene a special general meeting or put forward proposals at any general meeting, including the proposal to nominate a person for election as a Director, should follow the applicable procedures described below.

Procedures to Convene a Special General Meeting

1. Shareholders holding at the date of deposit of the requisition not less than one-tenth (1/10) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

2. The requisition must state the purposes of such meeting, and must be signed by the requisitionists and deposited at the Company's registered office in Bermuda at Clarendon House, Church Street, Hamilton HM11, Bermuda ("Registered Office"), and may consist of several documents in like form each signed by one or more requisitionists. To ensure that the requisition is received by the Company at the earliest opportunity, a copy of the signed requisition may also be deposited at the Company's principal place of business in Hong Kong at Room 3301-7, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong ("Principal Place of Business"), marked for the attention of the Board or the company secretary.

3. If Directors do not within twenty-one (21) days from the date of deposit of requisition proceed duly to convene a special general meeting to be held within two (2) months after the deposit of the requisition, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a meeting and be repaid by the Company for any reasonable expenses incurred, provided that any meeting so convened by the requisitionists shall not be held after the expiration of three (3) months from the said date of deposit of the requisition.

4. Other than an adjourned meeting,

   (1) a special general meeting at which the passing of a special resolution is to be considered shall be called by at least twenty-one (21) clear days and not less than ten (10) clear business days written notice. All other special general meetings may be called by at least fourteen (14) clear days and not less than ten (10) clear business days written notice.

   (2) any special general meeting may be called by shorter notice than that specified in sub-paragraph (1) above if it is so agreed by a majority in number of the shareholders having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the shares giving that right.

Corporate Governance Report

Procedures to Put Forward Proposals at General Meetings

1. Any number of shareholders representing not less than one-twentieth (1/20) of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the general meetings of the Company; or not less than one hundred (100) shareholders, shall (unless otherwise resolved by the Company) at their own expense have the right, by written requisition to the Company: (a) to require notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting to be given to shareholders; and/or (b) to request for circulation to shareholders any statement of not more than one thousand (1000) words with respect to the matter referred to in any proposed resolution or the business to be dealt with at any general meeting.

2. The requisition must be signed by the requisitionists in a single document or in separate copies prepared for the purpose. A copy of the signed requisition, accompanied by a sum reasonably sufficient to meet the Company's expenses, must be deposited at the Company's Registered Office: (a) in the case of a requisition requiring notice of a resolution, not less than six (6) weeks before the annual general meeting unless an annual general meeting is called for a date six (6) weeks or less after the copy has been deposited, in which case the copy shall be deemed to have been properly deposited though not deposited within the time required; and (b) in the case of any other requisition, not less than one (1) week before the general meeting. To ensure that the requisition is received by the Company at the earliest opportunity, a copy of the signed requisition may also be deposited at the Company's Principal Place of Business in Hong Kong, marked for the attention of the Board or the company secretary.

Procedures to Propose a Person for Election as a Director

Detailed information and procedures for shareholders to propose a person for election as a Director are set out in the Company's website http://www.yugang.com.hk.

INVESTOR RELATIONS

There were no significant changes in the Company's constitutional documents during the year.

On behalf of the Board

Yuen Wing Shing
Managing Director

Hong Kong, 26th March 2013

Report of the Directors

The Board of Yugang International Limited has pleasure in presenting the report together with the audited financial statements of the Company and the Group for the year ended 31 December 2012.

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 17 and 18 of the Notes to Financial Statements respectively.

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

RESULTS

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 87.

DIVIDENDS

The Board has resolved not to recommend any payment of final dividend for the year ended 31 December 2012 (2011: Nil). No interim dividend was declared for the financial years of 2012 and 2011.

RESERVES

Particulars of movement in the reserves of the Company and the Group during the year are set out in note 29 of the Notes to Financial Statements and the Consolidated Statement of Changes in Equity respectively.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2012, calculated in accordance with Companies Act 1981 of Bermuda (as amended from time to time), amounted to HK$843,540,000 (2011: HK$847,106,000), none of which (2011: Nil) was proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK$907,280,000 (2011: HK$907,280,000), may be distributed in the form of fully paid bonus shares.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2012 are set out in note 26 of the Notes to Financial Statements.

SEGMENT INFORMATION

An analysis of the segment performance of the Group for the year ended 31 December 2012 is set out in note 4 of the Notes to Financial Statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 88. This summary does not form part of the audited financial statements.

PROPERTY, EQUIPMENT AND INVESTMENT PROPERTIES

Particulars of the property, equipment and investment properties of the Group during the year are set out in notes 15 and 16 of the Notes to Financial Statements respectively.

Report of the Directors

SHARE CAPITAL

Particulars of the Company's share capital during the year are set out in note 28 of the Notes to Financial Statements.

PRE-EMPTIVE RIGHTS

There are no pre-emptive rights provisions in Companies Act 1981 of Bermuda (as amended from time to time) or the Bye-laws of the Company.

DONATIONS

No charitable and other donations was made by the Group during the year (2011: HK$300,000).

DIRECTORS

The Directors of the Company during the year and up to the date of this report 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 *(resigned on 31 December 2012)*

Independent non-executive Directors ("INED"):

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

Pursuant to bye-law 87 of the Bye-laws, Mr. Cheung Chung Kiu, Mr. Luk Yu King, James and Mr. Ng Kwok Fu will retire by rotation at the conclusion of the annual general meeting to be held on 21 May 2013, and being eligible, Mr. Cheung Chung Kiu will offer himself for re-election as an executive Director, Mr. Luk Yu King, James and Mr. Ng Kwok Fu will offer themselves for re-election as independent non-executive Directors. Biographical details of Directors proposed for re-election are set out in the circular to shareholders sent together with the annual report.

In accordance with the Bye-laws, each non-executive Director will be appointed for a specific term of no more than three years, subject to retirement by rotation at least once every three years.

None of Directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation other than statutory compensation.

The Company has received an annual written confirmation of independence from each of the independent non-executive Director pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee has reviewed the independence of INEDs in the meetings held on 4 December 2012 and 22 March 2013. The Company is of the view that all independent non-executive Directors have met the standards set out in the guidelines under the Listing Rules.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS

The biographical details of Directors are set out in the section headed "Profiles of Directors and Senior Management" on pages 31 to 32 of the annual report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

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

CHANGE IN THE INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Mr. Lee Ka Sze, Carmelo resigned as a non-executive director of The Cross-Harbour (Holdings) Ltd, a public company listed on the Stock Exchange, on 31 December 2012.

Mr. Lam Hiu Ho resigned as an executive director of C C Land Holdings Limited on 12 July 2012. In addition, Mr. Lam has been an executive director of Qualipak International Holdings Limited since 18 May 2012 which was subsequently listed on the Stock Exchange on 12 July 2012. He has also been an independent non-executive director of EVA Precision Industrial Holdings Ltd since 11 January 2013, all aforementioned companies are public companies listed on the Stock Exchange.

Save as disclosed herein, the Company has not been advised by the Directors of any change in the information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

MANAGEMENT CONTRACTS

There was no contract concerning management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There was no contract of significance in relation to the Company's business to which the Company or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, none of Directors and their associates had any interest in business which competed or was likely to compete, directly or indirectly, with the principal business of the Group.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2012, the Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting principles. Details of these transactions are disclosed in note 34 of the Notes to Financial Statements and none of them constitute "Connected Transactions" under Chapter 14A of the Listing Rules.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 31 December 2012, the interests and short positions of Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (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 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	30,000,000	0.32

(ii) Long positions in 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 are held by Chongqing Industrial Limited ("Chongqing") and 851,955,056 shares are 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 objects 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 are held by Funrise Limited which is indirectly controlled by Palin Holdings Limited as trustee for Palin Discretionary Trust, a family discretionary trust, the objects include Mr. Cheung Chung Kiu and his family.

Save as disclosed above, as at 31 December 2012, none of Directors or chief executives of the Company had any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as recorded in the register pursuant to 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 OPTIONS

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 2012.

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 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 substantial shareholders 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 of the Company 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 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 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 Directors and shall be at least the higher 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 sections headed "Directors' and Chief Executives' Interests" and "Share Options" above, at no time during the year, the Company or any of its subsidiaries or its holding company, was 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, and none of Directors, or any of their associates, had any rights to subscribe for shares of the Company, or had exercised any such rights during the year.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the following persons had interests or short positions in the shares or 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, or as otherwise notified to the Company and the Stock Exchange:

Long positions:

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

Notes:

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

(2) The voting rights of these shares are exercisable by Chongqing, which is controlled by Mr. Cheung Chung Kiu.

(3) Palin Holdings Limited is the trustee of Palin Discretionary Trust, a family discretionary trust, the objects include Mr. Cheung Chung Kiu and his family.

(4) Out of 4,099,709,740 shares, 3,194,434,684 shares and 851,955,056 shares are held by Chongqing and Timmex respectively and 53,320,000 shares are held by Mr. Cheung Chung Kiu personally.

Save as disclosed above, as at 31 December 2012, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company that were required to be recorded in the register kept by the Company under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

In 2012, 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 100%. There was no purchase of suppliers by the Group during the year.

None of Directors, their associates or any shareholders who, to the knowledge of Directors, own more than 5% of the Company's share capital, had any interest in any of the five largest customers.

Report of the Directors

MANDATORY PROVIDENT FUND

The Group operates a defined contribution Mandatory Provident Fund retirement benefit Scheme (the "MPF Scheme") for all of its employees. Particulars of the MPF Scheme are set out in note 2.4 of the Notes to Financial Statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Company is committed to an on-going enhancement of effective and efficient corporate governance practices.

The Company had fully complied with all code provisions of the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Listing Rules) during the period of 1 January 2012 to 31 March 2012. Save and except that the Company does not have formal letters of appointment for Directors setting out key terms and conditions of their appointment as require under code provision D.1.4, the Company had complied with code provisions set out in the new edition of the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the period of 1 April 2012 to 31 December 2012.

Information on corporate governance practices adopted by the Company is set out in Corporate Governance Report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of Directors, the Company has maintained the prescribed amount of public float durinig the year and up to the date of this report as required under the Listing Rules.

AUDITORS

The financial statements for the year ended 31 December 2012 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 21 May 2013, being eligible, offer themselves for reappointment. A resolution for re-appointment of Messrs. Ernst & Young as auditors of the Company and to authorize Directors to fix their remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yuen Wing Shing
Managing Director

Hong Kong, 26 March 2013

Profiles of Directors and Senior Management

Cheung Chung Kiu, aged 48, was appointed the chairman and an executive Director of the Company in 1993. Mr. Cheung is the chairman and a member of the Nomination Committee, a member of the Remuneration Committee and an authorised representative of the Company. Mr. Cheung also serves as a director of several subsidiaries of the Company. In addition, Mr. Cheung is the director of Palin Holdings Limited, Chongqing Industrial Limited and Timmex Investment Limited, all are companies disclosed in the section headed "Interests of Substantial Shareholders" on page 29 of the annual report. Mr. Cheung is the founder of the Company and he set up Chongqing Industrial Limited in 1985, a company mainly engaged in trading business in the PRC. Mr. Cheung is also the chairman of Y. T. Realty Group Limited, The Cross-Harbour (Holdings) Limited and C C Land Holdings Limited, all are public companies listed on the Stock Exchange. Further, Mr. Cheung is the son of Mr. Zhang Qing Xin, a Director of the Company.

Yuen Wing Shing, aged 66, was appointed an executive Director in June 1993 and the managing director of the Company on 1st January 2005. He is the authorised representative of the Company and also serves as a director of several subsidiaries of the Company. 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 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 Group Limited and The Cross-Harbour (Holdings) Limited, all are public companies listed on the Stock Exchange.

Zhang Qing Xin, aged 76, 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 was 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 51, was appointed an executive Director of the Company in 1993. He also serves as a director of several subsidiaries of the Company. He is mainly responsible for the sales and marketing of the Group's trading business in the PRC. He has over 27 years of experience in trading with PRC parties. He is an executive director of Qualipak International Holdings Limited and an independent non-executive director of EVA Precision Industrial Holdings Ltd, both of which are public companies listed on the Stock Exchange.

Liang Kang, aged 70, 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 engaged in the trading business in the PRC for over 16 years.

Lee Ka Sze, Carmelo, aged 52, was appointed an independent non-executive Director of the Company in 1993 and re-designated as a non-executive Director on 30 September 2004. He is also a member of the Audit Committee. Mr. Lee received his bachelor of laws degree and a postgraduate certificate in laws from The University of Hong Kong. He qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory, Australia. Mr. Lee is a partner of Messrs. Woo, Kwan, Lee and Lo, Solicitors & Notaries, which firm rendered professional services to the Company. Mr. Lee is the chairman of the Listing Committee of the Stock Exchange and Transport Tribunal of the HKSAR; a member of SFC Dual Filing Advisory Group of Securities and Futures Commission, SFC (HKEC Listing) Committee, Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants and Campaign Committee of the Community Chest of Hong Kong; and the Co-chairman of the Community Chest Corporate Challenge Half Marathon. Mr. Lee is an independent non-executive director of KWG Property Holding Limited and Ping An Insurance (Group) Company of China, Limited, and a non-executive director of Y. T. Realty Group Limited, CSPC Pharmaceutical Group Limited (formerly known as "China Pharmaceutical Group Limited"), Hopewell Holdings Limited, Safety Godown Company Limited and Termbray Industries International (Holdings) Limited, all are public companies listed on the Stock Exchange.

Profiles of Directors and Senior Management

Luk Yu King, James, aged 58, was appointed an independent non-executive Director of the Company in September 2007. He is the chairman and a member of the Audit Committee. 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 and Investment Institute (formerly known as 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 Group Limited and The Cross-Harbour (Holdings) Limited, all are public companies listed on the Stock Exchange.

Leung Yu Ming, Steven, aged 53, was appointed an independent non-executive Director of the Company in October 2007. Mr. Leung is a member of the Audit Committee and Nomination Committee. He is also the chairman and a member of the Remuneration Committee. Mr. Leung holds a degree of master in accountancy from Charles Sturt University in Australia and a degree of bachelor of social science 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 International Finance and Corporate Finance Department. He commenced public practice in auditing and taxation in 1990 and is currently a senior partner of a firm of certified public accountants. Mr. Leung has over 27 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 Group Limited, The Cross-Harbour (Holdings) Limited and C C Land Holdings Limited, all are public companies listed on the Stock Exchange.

Ng Kwok Fu, aged 41, was appointed an independent non-executive Director of the Company on 30th September, 2004. Mr. Ng is a member of the Audit Committee, Remuneration Committee and Nomination Committee. Mr. Ng holds a certificate in accounting from Grant MacEwan Community College. Mr. Ng has over 23 years experience in marketing, trading and purchasing of construction materials and providing technical control, support and management in building projects. He is an independent non-executive director of Y. T. Realty Group Limited and The Cross-Harbour (Holdings) Limited, all are public companies listed on the Stock Exchange.

Hong Kong, 26 March 2013

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Yugang International Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Yugang International Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 35 to 87, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

26 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 *HK$'000*	2011 *HK$'000*
REVENUE	5	**(2,416)**	(26,515)
Other income and gains	5	**69,996**	17,687
Administrative expenses		**(86,217)**	(85,076)
Other expenses	6	**(3,780)**	(173,149)
Impairment of an available-for-sale investment	21	**(10,776)**	(548,835)
Finance costs	8	**(3,227)**	(1,610)
Share of profits and losses of associates		**162,229**	147,083
PROFIT/(LOSS) BEFORE TAX	7	**125,809**	(670,415)
Income tax	11	**(41)**	(24)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12	**125,768**	(670,439)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	14		
Basic and diluted		**HK1.35 cents**	HK(7.20) cents

Details of the dividends for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Note	2012 *HK$'000*	2011 *HK$'000*
PROFIT/(LOSS) FOR THE YEAR		125,768	(670,439)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Available-for-sale investments:			
Changes in fair value	21	321,225	(300,010)
Reclassification adjustment for an impairment loss included in the consolidated income statement	21	10,776	548,835
		332,001	248,825
Share of other comprehensive income/(loss) of associates		16,716	(16,155)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		348,717	232,670
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		474,485	(437,769)

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property and equipment	15	52,693	52,402
Investment properties	16	35,000	27,600
Investments in associates	18	1,714,264	1,543,509
Convertible notes receivable - loan portion	19	8,061	6,515
Loans receivable	20	3,000	4,000
Available-for-sale investments	21	720,322	366,105
Other assets		360	360
Total non-current assets		2,533,700	2,000,491
CURRENT ASSETS			
Listed equity investments at fair value through profit or loss	22	171,813	161,885
Embedded option derivatives	19	13	3,793
Loans receivable	20	1,000	1,000
Prepayments, deposits and other receivables	23	3,671	5,855
Pledged time deposits	24	9,426	9,411
Time deposits	24	—	1,797
Cash and bank balances	24	5,454	10,191
Total current assets		191,377	193,932
CURRENT LIABILITIES			
Other payables and accruals	25	22,453	21,325
Interest-bearing bank loans	26	170,000	115,000
Tax payable		29,463	29,463
Total current liabilities		221,916	165,788
NET CURRENT ASSETS/(LIABILITIES)		(30,539)	28,144
TOTAL ASSETS LESS CURRENT LIABILITIES		2,503,161	2,028,635
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	208	167
Net assets		2,502,953	2,028,468
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	28	93,053	93,053
Reserves	29(a)	2,409,900	1,935,415
Total equity		2,502,953	2,028,468

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2012

	Attributable to equity holders of the Company						
	Issued capital	Share premium account	Contributed surplus	Available-for-sale investment revaluation reserve	Other reserves	Retained profits	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	93,053	907,280	760,799	(248,825)	2,161	970,380	2,484,848
Loss for the year	—	—	—	—	—	(670,439)	(670,439)
Other comprehensive income/(loss) for the year:							
Available-for-sale investments:							
Changes in fair value	—	—	—	(300,010)	—	—	(300,010)
Reclassification adjustment for an impairment loss included in the consolidated income statement	—	—	—	548,835	—	—	548,835
Share of other comprehensive loss of associates	—	—	—	—	(16,155)	—	(16,155)
Total comprehensive income/(loss) for the year	—	—	—	248,825	(16,155)	(670,439)	(437,769)
2010 final dividend	—	—	—	—	—	(18,611)	(18,611)
At 31 December 2011 and at 1 January 2012	93,053	907,280*	760,799*	—*	(13,994)*	281,330*	2,028,468
Profit for the year	—	—	—	—	—	125,768	125,768
Other comprehensive income for the year:							
Available-for-sale investments:							
Changes in fair value	—	—	—	321,225	—	—	321,225
Reclassification adjustment for an impairment loss included in the consolidated income statement	—	—	—	10,776	—	—	10,776
Share of other comprehensive income of associates	—	—	—	—	16,716	—	16,716
Total comprehensive income for the year	—	—	—	332,001	16,716	125,768	474,485
At 31 December 2012	93,053	907,280*	760,799*	332,001*	2,722*	407,098*	2,502,953

* These reserve accounts comprise the consolidated reserves of HK$2,409,900,000 (2011: HK$1,935,415,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 *HK$'000*	2011 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		125,809	(670,415)
Adjustments for:			
Finance costs	8	3,227	1,610
Share of profits and losses of associates		(162,229)	(147,083)
Interest income on bank deposits	5	(43)	(44)
Dividend income from available-for-sale investments	5	(30,871)	(11,117)
Changes in fair value of investment properties	5	(7,400)	(4,600)
Fair value losses on embedded option derivatives	6	3,780	3,500
Fair value (gains)/losses on listed equity investments at fair value through profit or loss, net	5, 6	(30,502)	169,649
Impairment of an available-for-sale investment	21	10,776	548,835
Depreciation	15	3,049	2,715
Gain on disposal of items of property and equipment	5	(25)	(25)
		(84,429)	(106,975)
Decrease in listed equity investments at fair value through profit or loss		20,574	9,591
Decrease/(increase) in loans receivable		1,000	(2,000)
Increase in prepayments, deposits and other receivables		(225)	(2,309)
Increase in interest receivable from convertible notes and loans receivable		(1,475)	(2,658)
Increase/(decrease) in other payables and accruals		1,106	(1,300)
Net cash flows used in operating activities		(63,449)	(105,651)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		(3,340)	(1,617)
Proceeds from early redemption of an available-for-sale investment		1,598	2,386
Proceeds from redemption of a convertible note		—	9,600
Proceeds from disposal of items of property and equipment		25	25
Interest received from bank deposits		43	38
Dividends received from an associate		8,190	8,190
Dividends received from available-for-sale investments		740	11,206
Purchase of an available-for-sale investment		(2,121)	—
Purchase of convertible notes		—	(10,000)
Increase in pledged time deposits		(15)	(27)
Net cash flows from investing activities		5,120	19,801

Consolidated Statement of Cash Flows *(Continued)*

Year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
Net cash flows from investing activities	5,120	19,801
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	55,000	75,000
Interest paid	(3,205)	(1,606)
Dividends paid	—	(18,611)
Net cash flows from financing activities	51,795	54,783
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,534)	(31,067)
Cash and cash equivalents at beginning of year	11,988	43,055
CASH AND CASH EQUIVALENTS AT END OF YEAR	5,454	11,988
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	5,454	10,191
Non-pledged time deposits with original maturity of less than three months when acquired	—	1,797
	5,454	11,988

Statement of Financial Position

31 December 2012

	Notes	2012 *HK$'000*	2011 *HK$'000*
NON-CURRENT ASSETS			
Investments in subsidiaries	17	1,842,363	1,843,968
CURRENT ASSETS			
Prepayments	23	788	790
Cash and bank balances	24	1,424	3,365
Total current assets		2,212	4,155
CURRENT LIABILITIES			
Other payables and accruals	25	702	684
NET CURRENT ASSETS		1,510	3,471
Net assets		1,843,873	1,847,439
EQUITY			
Issued capital	28	93,053	93,053
Reserves	29(b)	1,750,820	1,754,386
Total equity		1,843,873	1,847,439

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

Notes to Financial Statements

31 December 2012

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, 33/F., 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) treasury investment;

(ii) property investment; and

(iii) trading of scrap metals and other materials.

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.

As at 31 December 2012, the Group's current liabilities exceeded its current assets by HK$30,539,000. However, the Group's available-for-sale investments with market value of HK$720,322,000 as at 31 December 2012 are all listed securities in Hong Kong and are readily convertible into cash and cash equivalents to meet its liabilities as and when they fall due. In addition, the Group has available banking facilities of HK$92,000,000 remain unutilised as at 31 December 2012. Accordingly, the directors of the Company believe that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Notes to Financial Statements

31 December 2012

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adpoters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*

The adoption of these revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.3 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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Notes to Financial Statements

31 December 2012

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation.* The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

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2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs *(Continued)*

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

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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 investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary, 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 investments in associates are stated in the consolidated statement of financial position 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. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively.

Impairment of non-financial assets

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 in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an 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 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.

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31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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:

Leasehold land under finance leases	Over the lease terms
Buildings	2%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

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31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property and equipment and depreciation *(Continued)*

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 financial year end.

An item of property and equipment including any significant part initially recognised 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 end of the reporting period.

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

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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.

Notes to Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets within 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 investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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 as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. 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.

Notes to Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Notes to Financial Statements

31 December 2012

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 when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

Notes to Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost (Continued)

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the income statement.

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 investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale 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 removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include other payables and interest-bearing bank loans.

Subsequent measurement

After initial recognition, other payables and interest-bearing loans are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

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

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.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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 or other valuation models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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:

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

- when 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.

Notes to Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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.

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, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over 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.

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.

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31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

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 have been earned by the employees from their services to the Group at the end of the reporting period.

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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or transaction of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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.

Notes to Financial Statements

31 December 2012

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

Judgements *(Continued)*

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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described 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 reporting date, with reference to comparable sales transactions and where appropriate, on the basis of capitalisation of the net income after allowances for outgoings and in some cases provisions for reversionary income potential.

Impairment of 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.

For the year ended 31 December 2012, an impairment loss of HK$10,776,000 (2011: HK$548,835,000) has been recognised in the income statement for available-for-sale investments. At 31 December 2012, the carrying amount of available-for-sale investments was HK$720,322,000 (2011: HK$366,105,000).

Notes to Financial Statements

31 December 2012

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

Estimation uncertainty *(Continued)*

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 included in note 27 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable segments as follows:

(a) The treasury investment segment which trades and holds debt and equity securities, earns interest and dividend income from the relevant securities investments and generates interest income from the provision of financing services.

(b) The property and infrastructure investment segment which invests in properties for rental income and/or for capital appreciation potential, and invests in an associate which holds two tunnels in Hong Kong generating toll revenue. The property investment activities of this segment are carried out by Y. T. Realty Group Limited ("Y. T. Realty"), an associate of the Group, whilst the infrastructure investment activities are carried out through an associate of Y. T. Realty.

(c) The "Others" segment which consists of the trading of scrap metals and other materials, and other investments.

The management of the Company monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

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4. OPERATING SEGMENT INFORMATION *(Continued)*

Information regarding the Group's reportable segments is presented below:

Year ended 31 December 2012

	Treasury investment *HK$'000*	Property and infrastructure investment *HK$'000*	Others *HK$'000*	Reportable segments total *HK$'000*	Adjustments (Note) *HK$'000*	Consolidated *HK$'000*
Segment revenue:						
Revenue	(2,416)	183,272	—	180,856	(183,272)	(2,416)
Other income and gains	61,416	197,657	8,580	267,653	(197,657)	69,996
Total revenue and gains	59,000	380,929	8,580	448,509	(380,929)	67,580
Segment profit/(loss) for the year	(29,338)	475,189	3,723	449,574	(312,960)	136,614
Corporate and unallocated expenses, net						(10,846)
Profit for the year						125,768

	Treasury investment *HK$'000*	Property and infrastructure investment *HK$'000*	Others *HK$'000*	Corporate and unallocated *HK$'000*	Consolidated *HK$'000*
Other segment information:					
Share of profits and losses of associates	—	162,229	—	—	162,229
Investments in associates	—	1,714,264	—	—	1,714,264
Capital expenditure	—	—	38	3,302	3,340
Depreciation	—	—	432	2,617	3,049
Impairment of an available-for-sale investment	10,776	—	—	—	10,776
Interest revenue	1,749	—	—	—	1,749
Interest expense	3,227	—	—	—	3,227

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2011

	Treasury investment HK$'000	Property and infrastructure investment HK$'000	Others HK$'000	Reportable segments total HK$'000	Adjustments (Note) HK$'000	Consolidated HK$'000
Segment revenue:						
Revenue	(26,515)	160,472	—	133,957	(160,472)	(26,515)
Other income and gains	11,183	303,732	6,504	321,419	(303,732)	17,687
Total revenue and gains	(15,332)	464,204	6,504	455,376	(464,204)	(8,828)
Segment profit/(loss) for the year	(808,612)	430,824	1,524	(376,264)	(283,741)	(660,005)
Corporate and unallocated expenses, net						(10,434)
Loss for the year						(670,439)

	Treasury investment HK$'000	Property and infrastructure investment HK$'000	Others HK$'000	Corporate and unallocated HK$'000	Consolidated HK$'000
Other segment information:					
Share of profits and losses of associates	—	147,083	—	—	147,083
Investments in associates	—	1,543,509	—	—	1,543,509
Capital expenditure	—	—	—	1,617	1,617
Depreciation	—	—	427	2,288	2,715
Impairment of an available-for-sale investment	548,835	—	—	—	548,835
Interest revenue	2,658	—	—	—	2,658
Interest expense	1,610	—	—	—	1,610

Note: The activities of the property and infrastructure investment segment are carried out through the Group's associates and therefore, the entire revenue and gains of this reportable segment and its profit for the year not attributable to the Group are adjusted to arrive at the Group's consolidated revenue and gains and consolidated profit/(loss) for the year.

The Group's revenue is set out in note 5 to the financial statements.

The Group's revenue is derived solely from its operations in Hong Kong, and the non-current assets of the Group are substantially located in Hong Kong.

Notes to Financial Statements

31 December 2012

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of the net gains or 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:

	2012 *HK$'000*	2011 *HK$'000*
Revenue		
Losses on disposal of listed equity investments at fair value through profit or loss, net	**(4,442)**	(29,638)
Dividend income from listed equity investments at fair value through profit or loss	**277**	465
Interest income from convertible notes and loans receivable	**1,749**	2,658
	(2,416)	(26,515)
Other income and gains		
Gross rental income	**1,095**	919
Interest income on bank deposits	**43**	44
Fair value gains on listed equity investments at fair value through profit or loss, net	**30,502**	—
Dividend income from available-for-sale investments	**30,871**	11,117
Fair value gains on investment properties (*note 16*)	**7,400**	4,600
Gain on disposal of items of property and equipment	**25**	25
Others	**60**	982
	69,996	17,687

6. OTHER EXPENSES

	2012 *HK$'000*	2011 *HK$'000*
Fair value losses, net:		
Listed equity investments at fair value through profit or loss	**—**	169,649
Embedded option derivatives	**3,780**	3,500
	3,780	173,149

Notes to Financial Statements

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7. PROFIT/(LOSS) BEFORE TAX

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

	2012 *HK$'000*	2011 *HK$'000*
Depreciation (*note 15*)	3,049	2,715
Minimum lease payments under operating leases:		
Land and buildings	1,052	1,101
Others	7,464	7,976
	8,516	9,077
Auditors' remuneration	1,290	1,228
Foreign exchange difference, net	48	(1)
Staff costs (including directors' remuneration (*note 9*)):		
Wages and salaries	47,218	46,197
Pension scheme contributions	533	486
	47,751	46,683
Net rental income	(1,073)	(899)

8. FINANCE COSTS

	Group	
	2012 *HK$'000*	2011 *HK$'000*
Interest on bank loans	3,227	1,610

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	
	2012 *HK$'000*	2011 *HK$'000*
Fees	2,000	2,000
Other emoluments:		
Salaries, allowances and benefits in kind	13,975	13,905
Discretionary bonuses	8,600	8,600
Pension scheme contributions	56	48
	22,631	22,553
	24,631	24,553

Notes to Financial Statements

31 December 2012

9. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

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

	2012 HK$'000	2011 HK$'000
Mr. Luk Yu King, James	400	400
Mr. Ng Kwok Fu	200	200
Mr. Leung Yu Ming, Steven	200	200
	800	800

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(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
2012					
Executive directors:					
Mr. Cheung Chung Kiu	—	5,590	4,000	14	9,604
Mr. Yuen Wing Shing	—	3,900	1,400	14	5,314
Mr. Lam Hiu Lo	—	1,690	1,200	14	2,904
Mr. Zhang Qing Xin	—	1,560	1,300	—	2,860
Mr. Liang Kang	—	1,235	700	14	1,949
	—	13,975	8,600	56	22,631
Non-executive directors:					
Mr. Lee Ka Sze, Carmelo	1,000	—	—	—	1,000
Mr. Wong Yat Fai*	200	—	—	—	200
	1,200	—	—	—	1,200
	1,200	13,975	8,600	56	23,831

* Mr. Wong Yat Fai resigned as a non-executive director of the Company on 31 December 2012.

Notes to Financial Statements

31 December 2012

9. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors *(Continued)*

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2011					
Executive directors:					
Mr. Cheung Chung Kiu	—	5,560	4,000	12	9,572
Mr. Yuen Wing Shing	—	3,880	1,400	12	5,292
Mr. Lam Hiu Lo	—	1,685	1,200	12	2,897
Mr. Zhang Qing Xin	—	1,550	1,300	—	2,850
Mr. Liang Kang	—	1,230	700	12	1,942
	—	13,905	8,600	48	22,553
Non-executive directors:					
Mr. Lee Ka Sze, Carmelo	1,000	—	—	—	1,000
Mr. Wong Yat Fai	200	—	—	—	200
	1,200	—	—	—	1,200
	1,200	13,905	8,600	48	23,753

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2011: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining two (2011: two) non-director, highest paid employees are as follows:

	Group 2012	Group 2011
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**4,349**	4,042
Discretionary bonuses	**2,500**	2,500
Pension scheme contributions	**27**	24
	6,876	6,566

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31 December 2012

10. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

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

	Number of employees 2012	2011
HK$2,500,001 to HK$3,000,000	—	1
HK$3,000,001 to HK$3,500,000	1	—
HK$3,500,001 to HK$4,000,000	1	1
	2	2

11. INCOME TAX

Hong Kong profits tax calculates at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong.

	2012 *HK$'000*	2011 *HK$'000*
Group:		
Deferred tax charge for the year – Hong Kong (*note 27*)	41	24

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

Group	2012 *HK$'000*	2011 *HK$'000*
Profit/(loss) before tax	125,809	(670,415)
Tax at the statutory tax rate	20,758	(110,618)
Profits and losses attributable to associates	(26,768)	(24,269)
Income not subject to tax	(11,878)	(3,201)
Expenses not deductible for tax	3,366	99,123
Tax losses not recognised	14,783	39,094
Tax losses utilised from previous years	(8)	(9)
Others	(212)	(96)
Tax charge at the Group's effective rate	41	24

The share of tax attributable to associates amounting to HK$7,882,000 (2011: HK$6,147,000) is included in "Share of profits and losses of associates" in the consolidated income statement.

Notes to Financial Statements

31 December 2012

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

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2012 includes a loss of HK$3,566,000 (2011: HK$3,474,000) which has been dealt with in the financial statements of the Company (*note 29(b)*).

13. DIVIDENDS

The board of directors does not recommend any payment of final dividend for the year ended 31 December 2012 (2011: Nil). No interim dividend was declared in respect of the current and the prior years.

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.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2012 and 2011 as the Group had no potentially dilutive ordinary shares in issue during those years.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2012	2011
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company used in the basic and diluted earnings/(loss) per share calculations	125,768	(670,439)

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings/(loss) per share calculations	9,305,276,756	9,305,276,756

Notes to Financial Statements

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15. PROPERTY AND EQUIPMENT

Group

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	72,153	5,320	5,166	3,017	18,249	103,905
Accumulated depreciation and impairment	(24,399)	(4,622)	(4,782)	(2,959)	(14,741)	(51,503)
Net carrying amount	47,754	698	384	58	3,508	52,402
At 1 January 2012, net of accumulated depreciation and impairment	47,754	698	384	58	3,508	52,402
Additions	—	—	355	1	2,984	3,340
Depreciation provided during the year	(1,150)	(320)	(200)	(25)	(1,354)	(3,049)
At 31 December 2012, net of accumulated depreciation and impairment	46,604	378	539	34	5,138	52,693
At 31 December 2012:						
Cost	72,153	5,320	5,521	3,018	18,888	104,900
Accumulated depreciation and impairment	(25,549)	(4,942)	(4,982)	(2,984)	(13,750)	(52,207)
Net carrying amount	46,604	378	539	34	5,138	52,693
31 December 2011						
At 31 December 2010 and at 1 January 2011:						
Cost	72,153	5,320	5,162	2,995	18,982	104,612
Accumulated depreciation and impairment	(23,249)	(4,297)	(4,591)	(2,898)	(16,077)	(51,112)
Net carrying amount	48,904	1,023	571	97	2,905	53,500
At 1 January 2011, net of accumulated depreciation and impairment	48,904	1,023	571	97	2,905	53,500
Additions	—	—	4	22	1,591	1,617
Depreciation provided during the year	(1,150)	(325)	(191)	(61)	(988)	(2,715)
At 31 December 2011, net of accumulated depreciation and impairment	47,754	698	384	58	3,508	52,402
At 31 December 2011:						
Cost	72,153	5,320	5,166	3,017	18,249	103,905
Accumulated depreciation and impairment	(24,399)	(4,622)	(4,782)	(2,959)	(14,741)	(51,503)
Net carrying amount	47,754	698	384	58	3,508	52,402

Notes to Financial Statements

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15. PROPERTY AND EQUIPMENT *(Continued)*

At 31 December 2012, certain of the Group's land and buildings with a net carrying amount of approximately HK$40,545,000 (2011: HK$41,564,000) were pledged to banks to secure banking facilities granted to the Group *(note 32)*.

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

	Group	
	2012 *HK$'000*	2011 *HK$'000*
Long term lease	12,670	13,046
Medium term lease	29,482	30,104
	42,152	43,150

16. INVESTMENT PROPERTIES

	Group	
	2012 *HK$'000*	2011 *HK$'000*
Carrying amount at 1 January	27,600	23,000
Net gain from a fair value adjustment	7,400	4,600
Carrying amount at 31 December	35,000	27,600

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

The Group's investment properties were revalued on 31 December 2012 by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, at HK$35,000,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 30(a) to the financial statements.

At 31 December 2012, the Group's investment properties with a carrying value of HK$35,000,000 (2011: HK$27,600,000) were pledged to a bank to secure banking facilities granted to the Group *(note 32)*.

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17. INVESTMENTS IN SUBSIDIARIES

	Company	
	HK$'000	HK$'000
Unlisted shares, at cost	**105,759**	105,759
Due from subsidiaries	**1,736,604**	1,738,209
	1,842,363	1,843,968

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Bookman Properties Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Securities investment
Chase Create Investments Limited	Hong Kong	HK$2	—	100	Property holding
Ferrex Holdings Limited	British Virgin Islands	US$1	—	100	Investment holding
First River Investments Limited	British Virgin Islands	US$1	—	100	Investment holding
Funrise Limited	British Virgin Islands	US$1	—	100	Investment holding
Joywell Holdings Limited	British Virgin Islands	US$1	—	100	Investment holding
Kent Smart Investments Limited	Hong Kong	HK$2	—	100	Property holding
Maxking Industries Limited	Hong Kong	HK$2	—	100	Motor vehicle leasing
Maxlord Enterprises Limited	Hong Kong	HK$2	—	100	Money lending
New Wealth Limited	Hong Kong	HK$2	—	100	Property investment
Profit Era Development Limited	Hong Kong	HK$1	—	100	Motor vehicle leasing

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17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Regulator Holdings Limited	British Virgin Islands	US$1	—	100	Investment holding
Senico Investments Limited	British Virgin Islands	US$1	—	100	Trading of metal commodities and other materials
Time Lander Limited	British Virgin Islands	US$1	—	100	Property holding
Top Eagle Holdings Limited	British Virgin Islands	US$1	—	100	Investment holding
Yugang Finance Limited	Hong Kong	HK$2	—	100	Provision of financial services
Yugang International (B.V.I.) Limited	British Virgin Islands	US$5	100	—	Investment holding
Yugang Management Limited	Hong Kong	HK$2	—	100	Corporate management

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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18. INVESTMENTS IN ASSOCIATES

	Group	
	2012	2011
	HK$'000	*HK$'000*
Share of net assets	1,714,264	1,543,509
Market value of listed shares	600,600	505,050

Particulars of the principal associates are as follows:

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

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18. INVESTMENTS IN ASSOCIATES *(Continued)*

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Y. T. Finance Limited	Ordinary shares of HK$500 each	Hong Kong	34.14	Finance vehicle
Y. T. Group Management Limited	Ordinary shares of HK$1 each	Hong Kong	34.14	Provision of business management services
Y. T. Investment Holdings Limited	Ordinary shares of US$1 each	British Virgin Islands	34.14	Investment holding
Y. T. Investment Management Limited	Ordinary share of US$1 each	British Virgin Islands	34.14	Securities investment
Y. T. Properties International Limited	Ordinary shares of US$1 each	British Virgin Islands	34.14	Investment holding
Y. T. Property Services Limited	Ordinary shares of HK$1 each	Hong Kong	34.14	Property management

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.

The Group's shareholdings in the associates all comprise equity shares held through a wholly-owned subsidiary of the Company.

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:

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
Assets	**5,348,146**	4,915,047
Liabilities	**326,894**	393,959
Revenue	**183,272**	160,472
Profit	**475,189**	430,824

Notes to Financial Statements

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19. CONVERTIBLE NOTES RECEIVABLE

	Group	
	2012	2011
	HK$'000	*HK$'000*
Unlisted convertible notes:		
Loan portion	8,061	6,515
Embedded option derivatives at fair value	13	3,793
	8,074	10,308
Classified as current assets	(13)	(3,793)
Non-current assets	8,061	6,515

As at 31 December 2012 and 2011, the Group held a convertible note with a principal amount of HK$10,000,000 issued by a company listed on the Stock Exchange. This convertible note carries interest at 5% per annum and will mature in 2014. This convertible note confers rights on the holders to convert the whole or part of the outstanding principal amount into ordinary shares of the issuer at conversion price of HK$1 per share in the defined period. The convertible note could be redeemed by the issuer at an amount equal to 100% of the principal amount before maturity to the extent of the amount not previously converted by the holders. The fair value of the loan portion of the convertible note is determined based on an effective interest rate of 22.5% per annum on initial recognition and the fair value of the embedded derivatives (issuer's call option and holders' conversion options) is determined using a trinomial tree pricing model.

20. LOANS RECEIVABLE

	Group	
	2012	2011
	HK$'000	*HK$'000*
Unsecured:		
Non-current	3,000	4,000
Current	1,000	1,000
	4,000	5,000

The Group's loans receivable represent 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 per annum. The credit term for an existing customer is four years. As the Group's loans receivable are not significant during the year, the directors of the Company are of the opinion that there is no significant credit risk.

Notes to Financial Statements

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21. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2012 *HK$'000*	2011 *HK$'000*
Listed equity investments in Hong Kong, at fair value	720,322	366,105

Particulars of the Group's listed equity investments in Hong Kong at the end of the reporting period are as follows:

Name	Place of incorporation	Nominal value of issued and paid-up share capital	Percentage of ownership interest attributable to the Group	
			2012	2011
C C Land Holdings Limited	Bermuda	HK$258,780,000	10.06	9.99
Qualipak International Holdings Limited	Bermuda	HK$14,377,000	9.97	—

During the year, the gross gain in respect of the Group's available-for-sale investments, which is stated at fair value, recognised in other comprehensive income amounted to HK$321,225,000 (2011: gross loss of HK$300,010,000).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at the end of the reporting period, there was a significant decline in the market value of an available-for-sale investment of the Group which is a listed equity investment in Hong Kong. The directors consider that such a decline is a significant and/or prolonged decline in fair value below the original cost of that investment and constitutes an objective evidence of impairment. Accordingly, an impairment loss of HK$10,776,000 (2011: HK$548,835,000), which represented a reclassification from other comprehensive income, has been recognised in the consolidated income statement for the year.

The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately HK$599,989,000.

Notes to Financial Statements

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Listed equity investments, at market value:		
Hong Kong	80,892	103,329
Elsewhere	90,921	58,556
	171,813	161,885

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$173,283,000.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	2,211	2,071	788	790
Deposits	1,174	1,143	—	—
Other receivables	286	2,641	—	—
	3,671	5,855	788	790

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.

24. 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 from two months to three months 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.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	729	810	665	667
Accruals	21,409	20,237	37	17
Customers' deposits received	315	278	—	—
	22,453	21,325	702	684

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

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26. INTEREST-BEARING BANK LOANS

Group

	2012			2011		
	Effective interest rate (%)	Maturity	*HK$'000*	Effective interest rate (%)	Maturity	*HK$'000*
Current						
Bank loans – secured	2.09 - 2.44	January 2013	170,000	1.95 - 2.35	January, February 2012	115,000

All the above bank loans are denominated in Hong Kong dollars and their carrying amounts as at 31 December 2012 and 2011 approximated to their fair values.

The above bank loans are secured by certain of the Group's time deposits, investment properties, leasehold land and buildings *(note 32)*.

27. DEFERRED TAX

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

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation *HK$'000*
At 1 January 2011	461
Deferred tax charged to the consolidated income statement during the year *(note 11)*	114
Gross deferred tax liabilities at 31 December 2011 and 1 January 2012	575
Deferred tax charged to the consolidated income statement during the year *(note 11)*	241
Gross deferred tax liabilities at 31 December 2012	816

Deferred tax assets

Group

	Loss available for offsetting against future taxable profits *HK$'000*
At 1 January 2011	318
Deferred tax credited to the consolidated income statement during the year (*note 11*)	90
Gross deferred tax assets at 31 December 2011 and 1 January 2012	408
Deferred tax credited to the consolidated income statement during the year (*note 11*)	200
Gross deferred tax assets at 31 December 2012	608

Notes to Financial Statements

31 December 2012

27. DEFERRED TAX *(Continued)*

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balance of the Group for financial reporting purposes:

	2012 HK$'000	2011 HK$'000
Net deferred tax liabilities recognised in the consolidated statement of financial position	208	167

The Group has tax losses arising in Hong Kong of HK$1,126,490,000 (2011: HK$1,037,381,000) 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.

28. SHARE CAPITAL

Shares

	2012 HK$'000	2011 HK$'000
Authorised:		
50,000,000,000 (2011: 50,000,000,000) ordinary shares of HK$0.01 each	500,000	500,000
Issued and fully paid:		
9,305,276,756 (2011: 9,305,276,756) ordinary shares of HK$0.01 each	93,053	93,053

Share options

The Company adopted a share option scheme (the "Scheme") at the special general meeting held on 29 April 2005. 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 end of the reporting period. 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 the option subject to the provision for early termination set out in the Scheme. The Scheme remains in force until 28 April 2015. No option has been granted under the Scheme since the adoption of the Scheme.

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29. RESERVES

(a) 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 38 of the financial statements.

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2011	907,280	839,108	30,083	1,776,471
Total comprehensive loss for the year	—	—	(3,474)	(3,474)
2010 final dividend	—	—	(18,611)	(18,611)
At 31 December 2011 and at 1 January 2012	907,280	839,108	7,998	1,754,386
Total comprehensive loss for the year	—	—	(3,566)	(3,566)
At 31 December 2012	907,280	839,108	4,432	1,750,820

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 from time to time), the contributed surplus may be distributed to shareholders under certain circumstances.

30. 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 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 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group 2012 HK$'000	Group 2011 HK$'000
Within one year	1,142	779
In the second to fifth years, inclusive	459	356
	1,601	1,135

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30. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases certain of its office properties and car parks under operating lease arrangements. Leases for these properties are negotiated for terms from one year to three years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Within one year	894	1,069
In the second to fifth years, inclusive	—	546
	894	1,615

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following commitments in respect of the purchases of property and equipment at the end of the reporting period:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Contracted, but not provided for	1,070	—

At the end of the reporting period, the Company did not have any significant commitments.

32. BANKING FACILITIES

At the end of the reporting period, the Group's banking facilities were secured by:

(a) a pledge of the Group's time deposits of HK$9,426,000 (2011: HK$9,411,000);

(b) a pledge of the Group's investment properties and certain land and buildings with carrying values of HK35,000,000 and HK$40,545,000, respectively (2011: HK$27,600,000 and HK$41,564,000, respectively); and

(c) corporate guarantees issued by the Company.

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31 December 2012

33. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2012	2011
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**518,080**	518,080

At 31 December 2012, the banking facilities granted to subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of HK$170,000,000 (2011: HK$115,000,000).

34. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2012	2011
	HK$'000	*HK$'000*
Short term employee benefits	**25,650**	25,450
Post-employment benefits	**69**	60
Long term employee benefits	**135**	135
Total compensation paid to key management personnel	**25,854**	25,645

Further details of directors' emoluments are included in note 9 to the financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

Except for certain available-for-sale investments, equity investments at fair value through profit or loss and embedded option derivatives, which are measured at fair value, other financial assets and liabilities of the Company and the Group as at 31 December 2012 and 2011 are loans and receivables and financial liabilities at amortised cost, respectively.

36. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Notes to Financial Statements

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36. FAIR VALUE HIERARCHY *(Continued)*

Assets measured at fair value

Group

At 31 December 2012

	Level 1	Level 2	Total
	HK$'000	*HK$'000*	*HK$'000*
Available-for-sale equity investments	720,322	—	720,322
Listed equity investments at fair value through profit or loss	171,813	—	171,813
Embedded option derivatives at fair value	—	13	13
	892,135	13	892,148

At 31 December 2011

	Level 1	Level 2	Total
	HK$'000	*HK$'000*	*HK$'000*
An available-for-sale equity investment	366,105	—	366,105
Listed equity investments at fair value through profit or loss	161,885	—	161,885
Embedded option derivatives at fair value	—	3,793	3,793
	527,990	3,793	531,783

The Group did not have any financial liabilities measured at fair value as at 31 December 2012 and 2011.

The Company did not have any financial assets and financial liabilities measured at fair value as at 31 December 2012 and 2011.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2011: Nil).

Notes to Financial Statements

31 December 2012

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, include equity investments, investments in convertible notes, loans receivable, 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 considers that the risk of changes in market interest rates is not significant, 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$19 million (2011: HK$26 million) as at 31 December 2012. Assuming that the balances are held at a constant level and there is an average increase in the interest rate of 25 (2011: 25) basis points for the year ended 31 December 2012, the interest income of the Group will be increased by HK$0.05 million (2011: HK$0.07 million).

The Group incurs interest expense principally from its bank loans with floating interest rates. Assuming that bank loans outstanding as at the end of the reporting period was outstanding for the whole year, with all other variables held constant, a 25 (2011: 25) basis points increase in interest rates at 31 December 2012 would have increased the interest expense of the Group by HK$0.4 million (2011: HK$0.3 million).

Foreign currency risk

The Group has transactional currency exposure as about 9% (2011: 10%) of the operating expenses for the year were denominated in United States dollars.

The Group has translational currency exposure because 76% (2011: 76%) of the cash and bank balances were denominated in United States dollars and 53% (2011: 36%) of the listed equity investments at fair value through profit or loss were denominated in Singapore dollars.

The Group considers that the above currency exposures are 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 3.6% (2011: 2.9%) of the Group's net assets. 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.

Notes to Financial Statements

31 December 2012

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

Foreign currency risk *(Continued)*

The following table demonstrates the sensitivity at the end of the reporting period 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*
2012		
If Hong Kong dollar weakens against Singapore dollar	5.0	4,546
If Hong Kong dollar strengthens against Singapore dollar	(5.0)	(4,546)
2011		
If Hong Kong dollar weakens against Singapore dollar	5.0	(2,928)
If Hong Kong dollar strengthens against Singapore dollar	(5.0)	2,928

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 the end of the reporting period 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.

Notes to Financial Statements

31 December 2012

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

Equity 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 as at 31 December 2012. 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 end of the reporting period.

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

	31 December 2012	High/low 2012	31 December 2011	High/low 2011
Hong Kong – Hang Seng Index	22,657	22,719	18,434	24,469
		18,056		16,170
Singapore – Straits Times Index	3,167	3,196	2,646	3,281
		2,646		2,522

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 end of the reporting period. For the purpose of this analysis, for the available-for-sale 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 10% increase in Hang Seng Index of Hong Kong (2011: decrease of 5%) and a 10% increase in Straits Times Index of Singapore (2011: decrease of 5%) anticipated as at the end of the reporting period and an estimated value of beta of the investment portfolios of the Group.

Notes to Financial Statements

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

Equity price risk *(Continued)*

	Carrying amount of listed equity investments *HK$'000*	Increase in profit before tax *HK$'000*	Increase in other components of equity *HK$'000*
2012			
Listed equity investments at fair value through profit or loss listed in:			
Hong Kong	80,892	7,702	—
Singapore	90,921	5,288	—
Available-for-sale investments listed in Hong Kong	720,322	—	41,894
Total		12,990	41,894

	Carrying amount of listed equity investments *HK$'000*	Increase in loss before tax *HK$'000*
2011		
Listed equity investments at fair value through profit or loss listed in:		
Hong Kong	103,329	(6,104)
Singapore	58,556	(1,821)
Available-for-sale investment listed in Hong Kong	366,105	(63,781)
Total		(71,706)

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

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37. 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 end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, was as follows:

Group

		2012	
	On demand	Less than 3 months	Total
	HK$'000	*HK$'000*	*HK$'000*
Other payables	729	—	729
Interest-bearing bank loans	—	170,000	170,000
	729	170,000	170,729

		2011	
	On demand	Less than 3 months	Total
	HK$'000	*HK$'000*	*HK$'000*
Other payables	810	—	810
Interest-bearing bank loans	—	115,000	115,000
	810	115,000	115,810

Company

All of the Company's financial liabilities as at the end of the reporting period were repayable on demand.

Notes to Financial Statements

31 December 2012

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

Capital management

The primary objectives of the Group's capital management are 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 proctesses for managing capital during the years ended 31 December 2012 and 31 December 2011.

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, other payables and accrued expenses, less cash and cash equivalents. The gearing ratio as at the end of the reporting periods was as follows:

	Group	
	2012 *HK$'000*	2011 *HK$'000*
Interest-bearing bank loans	170,000	115,000
Other payables and accruals	22,453	21,325
Less: Cash and cash equivalents	(5,454)	(11,988)
Net debt	186,999	124,337
Equity attributable to equity holders of the Company	2,502,953	2,028,468
Gearing ratio	7.5%	6.1%

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2013.

Five Year Financial Summary

A summary of the results and of the assets and liabilities 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				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**(2,416)**	(26,515)	5,567	105,006	(219,185)
PROFIT/(LOSS) BEFORE TAX	**125,809**	(670,415)	157,028	184,004	(725,794)
Tax	**(41)**	(24)	(1)	(26)	3,238
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**125,768**	(670,439)	157,027	183,978	(722,556)

ASSETS AND LIABILITIES

	At 31 December				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**2,725,077**	2,194,423	2,577,075	2,701,590	2,150,719
TOTAL LIABILITIES	**(222,124)**	(165,955)	(92,227)	(111,547)	(170,441)
	2,502,953	2,028,468	2,484,848	2,590,043	1,980,278