# YUGANG INTERNATIONAL LIMITED

**(渝港國際有限公司) ***

(Incorporated in Bermuda with limited liability)
(Stock code: 613)

## ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007

The board ("Board") of directors ("Directors") of Yugang International Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 together with the comparative figures for the corresponding year in 2006 as follows:

**Consolidated Income Statement**
**For the year ended 31 December 2007**

| | Notes | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| REVENUE | 3 | **107,819** | 122,847 |
| Cost of sales | | **(63,860)** | (51,348) |
| Gross profit | | **43,959** | 71,499 |
| Other income and gains | 3 | **200,235** | 205,537 |
| Administrative expenses | | **(83,407)** | (85,389) |
| Other expenses | | **-** | (3,490) |
| Finance costs | 4 | **(2,708)** | (8,740) |
| Share of profits and losses of: | | | |
| A jointly-controlled entity | | **-** | (359) |
| Associates | | **129,615** | 110,918 |
| PROFIT BEFORE TAX | 5 | **287,694** | 289,976 |
| Tax | 6 | **(22,412)** | (20,172) |
| PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS | | **265,282** | 269,804 |
| **DISCONTINUED OPERATIONS** | | | |
| Profit after tax for the year from discontinued operations | | **-** | 539,340 |
| PROFIT FOR THE YEAR | | **265,282** | 809,144 |
| ATTRIBUTABLE TO: | | | |
| Equity holders of the Company | | **265,282** | 780,923 |
| Minority interests | | **-** | 28,221 |
| | | **265,282** | 809,144 |
| DIVIDEND | | **27,916** | 27,043 |

| | Notes | **2007** | 2006 |
|---|---|---|---|
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 7 | | |
| Basic | | | |
| - For profit for the year | | **2.90 HK cents** | 8.83 HK cents |
| - For profit from continuing operations | | **2.90 HK cents** | 3.05 HK cents |
| Diluted | | | |
| - For profit for the year | | **2.86 HK cents** | 8.41 HK cents |
| - For profit from continuing operations | | **2.86 HK cents** | 2.92 HK cents |

**Consolidated Balance Sheet**
31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **18,651** | 16,389 |
| Investment properties | | **15,300** | 11,700 |
| Prepaid land lease payments | | **96,943** | 72,934 |
| Interests in associates | | **1,019,915** | 899,310 |
| Convertible debentures and notes | | **-** | 47,416 |
| Loans receivable | | **1,000** | 1,000 |
| Available-for-sale investments | | **2,916,046** | 1,271,198 |
| Other assets | | **12,360** | 12,360 |
| Total non-current assets | | **4,080,215** | 2,332,307 |
| **CURRENT ASSETS** | | | |
| Equity investments at fair value through profit or loss | | **756,882** | 731,366 |
| Loans receivable | | **102,729** | 159,991 |
| Trade debtors | 8 | **5,127** | 7,574 |
| Other debtors, deposits and prepayments | | **18,419** | 15,662 |
| Prepaid land lease payments | | **1,554** | 1,347 |
| Pledged time deposits | | **9,206** | 8,754 |
| Time deposits | | **50,243** | 119,217 |
| Cash and bank balances | | **132,595** | 10,786 |
| Total current assets | | **1,076,755** | 1,054,697 |
| **CURRENT LIABILITIES** | | | |
| Trade creditors | 9 | **1,046** | 977 |
| Tax payable | | **31,708** | 22,712 |
| Other payables | | **3,995** | 3,076 |
| Accrued expenses | | **20,139** | 21,588 |
| Customers' deposits received | | **348** | 127 |
| Interest-bearing bank borrowings | | **-** | 95,000 |
| Convertible note | | **-** | 25,299 |
| Total current liabilities | | **57,236** | 168,779 |
| **NET CURRENT ASSETS** | | **1,019,519** | 885,918 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **5,099,734** | 3,218,225 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **1,628** | 977 |
| Total non-current liabilities | | **1,628** | 977 |
| Net assets | | **5,098,106** | 3,217,248 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Issued capital | | **93,053** | 90,143 |
| Equity component of convertible note | | - | 2,819 |
| Reserves | | **4,977,137** | 3,097,243 |
| Proposed final dividend | | **27,916** | 27,043 |
| Total equity | | **5,098,106** | 3,217,248 |

*Notes:*

1. **Basis of preparation and accounting policies**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include 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.

The accounting policies and basis of preparation used in the preparation of these financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2006, except that the Group has in the current year applied, for the first time, the following new and revised HKFRSs, HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA. The adoption of these new HKFRSs has had no significant impact on the Group's consolidated financial statements.

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

The HKICPA has also issued a number of new and revised HKFRSs which are not yet effective for the current reporting period. The Group has not yet adopted these new HKFRSs in the consolidated financial statements. The Group expects that the adoption of these new HKFRSs will not have significant impact on the Group's financial statements in the period of initial application.

## 2. Segment information

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

(a) Business segments

The following tables present revenue and profit/(loss) information regarding the Group's business segments for the year ended 31 December 2007 and 2006 respectively.

For the year ended 31 December 2007

| | Continuing operations | | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Trading of scrap metals and other materials HK$'000 | Treasury investment HK$'000 | Property and other investments HK$'000 | Unallocated HK$'000 | Total HK$'000 | Manufacture and sale of packaging products HK$'000 | Manufacture and sale of luggage products HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| **Segment revenue:** | | | | | | | | | |
| Revenue from external customers | 65,074 | 42,745 | - | - | 107,819 | - | - | - | 107,819 |
| Other revenue | - | - | 13,475 | - | 13,475 | - | - | - | 13,475 |
| Total revenue | 65,074 | 42,745 | 13,475 | - | 121,294 | - | - | - | 121,294 |
| **Segment results** | (3,232) | 158,584 | 16,375 | - | 171,727 | - | - | - | 171,727 |
| Unallocated expenses, net | | | | | (19,216) | | | - | (19,216) |
| Interest income on bank deposits | | | | | 8,276 | | | - | 8,276 |
| Finance costs | | | | | (2,708) | | | - | (2,708) |
| Share of profits and losses of associates | - | - | 129,615 | - | 129,615 | - | - | - | 129,615 |
| Profit before tax | | | | | 287,694 | | | - | 287,694 |
| Tax | | | | | (22,412) | | | - | (22,412) |
| Profit for the year | | | | | 265,282 | | | - | 265,282 |

(a) Business segments (continued)

For the year ended 31 December 2007

| | Continuing operations | | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Trading of scrap metals and other materials HK$'000 | Treasury investment HK$'000 | Property and other investments HK$'000 | Unallocated HK$'000 | Total HK$'000 | Manufacture and sale of packaging products HK$'000 | Manufacture and sale of luggage products HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| **Assets and liabilities:** | | | | | | | | | |
| Segment assets | 13,334 | 960,883 | 2,955,451 | - | 3,929,668 | - | - | - | 3,929,668 |
| Interests in associates | - | - | 1,019,915 | - | 1,019,915 | - | - | - | 1,019,915 |
| Unallocated assets | - | - | - | 207,387 | 207,387 | - | - | - | 207,387 |
| Total assets | | | | | | | | | 5,156,970 |
| Segment liabilities | 1,970 | 69 | 23 | - | 2,062 | - | - | - | 2,062 |
| Unallocated liabilities | - | - | - | 56,802 | 56,802 | - | - | - | 56,802 |
| Total liabilities | | | | | | | | | 58,864 |
| **Other segment information:** | | | | | | | | | |
| Capital expenditure | - | - | - | (30,550) | (30,550) | - | - | - | (30,550) |
| Depreciation | - | (203) | - | (2,306) | (2,509) | - | - | - | (2,509) |
| Amortisation on prepaid land lease payments | - | - | - | (1,563) | (1,563) | - | - | - | (1,563) |
| Fair value gains on equity investments at fair value through profit or loss | - | 168,712 | - | - | 168,712 | - | - | - | 168,712 |
| Gain on disposal of listed equity investments at fair value through profit or loss | - | 13,911 | - | - | 13,911 | - | - | - | 13,911 |

(a) Business segments (continued)

For the year ended 31 December 2006

| | Continuing operations | | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Trading of scrap metals and other materials HK$'000 | Treasury investment HK$'000 | Property and other investments HK$'000 | Unallocated HK$'000 | Total HK$'000 | Manufacture and sale of packaging products HK$'000 | Manufacture and sale of luggage products HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| **Segment revenue:** | | | | | | | | | |
| Revenue from external customers | 52,395 | 70,452 | - | - | 122,847 | 265,154 | 383,754 | 648,908 | 771,755 |
| Other revenue | - | - | 1,842 | - | 1,842 | - | - | - | 1,842 |
| Total revenue | 52,395 | 70,452 | 1,842 | - | 124,689 | 265,154 | 383,754 | 648,908 | 773,597 |
| **Segment results** | (3,714) | 170,305 | 39,884 | - | 206,475 | 31,125 | 6,994 | 38,119 | 244,594 |
| Unallocated expenses, net | | | | | (25,537) | | | (10,725) | (36,262) |
| Gain on deemed disposal of subsidiaries | | | | | - | | | 508,885 | 508,885 |
| Interest income on bank deposits | | | | | 7,219 | | | 7,278 | 14,497 |
| Finance costs | | | | | (8,740) | | | (1,944) | (10,684) |
| Share of profits and losses of: | | | | | | | | | |
| A jointly-controlled entity | - | - | (359) | - | (359) | - | - | - | (359) |
| Associates | - | - | 110,918 | - | 110,918 | - | - | - | 110,918 |
| Profit before tax | | | | | 289,976 | | | 541,613 | 831,589 |
| Tax | | | | | (20,172) | | | (2,273) | (22,445) |
| Profit for the year | | | | | 269,804 | | | 539,340 | 809,144 |

(a) Business segments (continued)

For the year ended 31 December 2006

| | Continuing operations | | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Trading of scrap metals and other materials HK$'000 | Treasury investment HK$'000 | Property and other investments HK$'000 | Unallocated HK$'000 | Total HK$'000 | Manufacture and sale of packaging products HK$'000 | Manufacture and sale of luggage products HK$'000 | Total HK$'000 | Consolidated HK$'000 |
| **Assets and liabilities:** | | | | | | | | | |
| Segment assets | 15,774 | 1,019,592 | 1,295,312 | - | 2,330,678 | - | - | - | 2,330,678 |
| Interests in associates | - | - | 899,310 | - | 899,310 | - | - | - | 899,310 |
| Unallocated assets | - | - | - | 157,016 | 157,016 | - | - | - | 157,016 |
| Total assets | | | | | | | | | 3,387,004 |
| Segment liabilities | 4,056 | 39 | - | - | 4,095 | - | - | - | 4,095 |
| Unallocated liabilities | - | - | - | 165,661 | 165,661 | - | - | - | 165,661 |
| Total liabilities | | | | | | | | | 169,756 |
| **Other segment information:** | | | | | | | | | |
| Capital expenditure | - | - | - | (4,285) | (4,285) | (38,013) | (3,005) | (41,018) | (45,303) |
| Depreciation | - | (297) | - | (2,394) | (2,691) | (5,699) | (1,804) | (7,503) | (10,194) |
| Amortisation on prepaid land lease payments | - | - | - | (1,443) | (1,443) | (1,390) | (53) | (1,443) | (2,886) |
| Impairment of trade debtors | - | - | - | - | - | (1,204) | (1,627) | (2,831) | (2,831) |
| Provision against obsolete inventories | - | - | - | - | - | - | (1,039) | (1,039) | (1,039) |
| Fair value gains on equity investments at fair value through profit or loss | - | 136,601 | - | - | 136,601 | - | - | - | 136,601 |
| Gain on disposal of listed equity investments at fair value through profit or loss | - | 34,485 | - | - | 34,485 | - | - | - | 34,485 |
| Gain on derecognition of investments at fair value through profit or loss | - | 17,229 | - | - | 17,229 | - | - | - | 17,229 |

(b) Geographical segments

The following table presents revenue information regarding the Group's geographical segments for the year ended 31 December 2007 and 2006.

| | The PRC | | | | | |
|---|---|---|---|---|---|---|
| | **Hong Kong HK$'000** | **Elsewhere in the PRC HK$'000** | **North and South Americas HK$'000** | **European Union HK$'000** | **Others HK$'000** | **Consolidated HK$'000** |
| **Year ended 31 December 2007** | | | | | | |
| **Segment revenue:** | | | | | | |
| Revenue from external customers | **42,745** | **65,074** | - | - | - | **107,819** |
| Other revenue | **13,475** | - | - | - | - | **13,475** |
| Revenue from continuing operations | **56,220** | **65,074** | - | - | - | **121,294** |
| **Other segment information :** | | | | | | |
| Segment assets | **4,956,014** | **5,407** | - | - | **195,549** | **5,156,970** |
| Capital expenditure | **30,550** | - | - | - | - | **30,550** |
| Year ended 31 December 2006 | | | | | | |
| **Segment revenue:** | | | | | | |
| Revenue from external customers | 149,273 | 50,135 | 359,330 | 172,235 | 40,782 | 771,755 |
| Other revenue | 1,842 | - | - | - | - | 1,842 |
| | 151,115 | 50,135 | 359,330 | 172,235 | 40,782 | 773,597 |
| Attributable to discontinued operations | (80,784) | - | (359,330) | (172,235) | (36,559) | (648,908) |
| Revenue from continuing operations | 70,331 | 50,135 | - | - | 4,223 | 124,689 |
| **Other segment information :** | | | | | | |
| Segment assets | 3,174,492 | 7,575 | - | - | 204,937 | 3,387,004 |
| Capital expenditure | 40,536 | 4,767 | - | - | - | 45,303 |

## 3. Revenue, other income and gains

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

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

| | **2007** | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Continuing operations HK$'000** | **Discontinued operations HK$'000** | **Total HK$'000** | Continuing operations HK$'000 | Discontinued operations HK$'000 | Total HK$'000 |
| Revenue | | | | | | |
| Sale of goods | **65,074** | **-** | **65,074** | 52,395 | 648,908 | 701,303 |
| Gain on disposal of listed equity investments at fair value through profit or loss | **13,911** | **-** | **13,911** | 34,485 | - | 34,485 |
| Dividend income from listed investments | **17,715** | **-** | **17,715** | 17,287 | - | 17,287 |
| Interest income from convertible notes and loans receivable | **10,819** | **-** | **10,819** | 18,680 | - | 18,680 |
| Others | **300** | **-** | **300** | - | - | - |
| | **107,819** | **-** | **107,819** | 122,847 | 648,908 | 771,755 |

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Continuing operations HK$'000** | **Discontinued operations HK$'000** | **Total HK$'000** | Continuing operations HK$'000 | Discontinued operations HK$'000 | Total HK$'000 |
| Other income and gains | | | | | | |
| Gross rental income | **763** | **-** | **763** | 1,842 | - | 1,842 |
| Interest income on bank deposits | **8,276** | **-** | **8,276** | 7,219 | 7,278 | 14,497 |
| Fair value gains, net: | | | | | | |
| Equity investments at fair value through profit or loss | **168,712** | **-** | **168,712** | 136,601 | - | 136,601 |
| Convertible notes | **5,072** | **-** | **5,072** | - | - | - |
| Gain on disposal of subsidiaries | **-** | **-** | **-** | 36,144 | - | 36,144 |
| Gain on derecognition of investments at fair value through profit or loss | **-** | **-** | **-** | 17,229 | - | 17,229 |
| Gain arising from redemption of convertible notes | **-** | **-** | **-** | 3,066 | - | 3,066 |
| Dividend income from an available-for-sale investment | **12,712** | **-** | **12,712** | - | - | - |
| Fair value gains on investment properties | **3,600** | **-** | **3,600** | 2,530 | - | 2,530 |
| Others | **1,100** | **-** | **1,100** | 906 | 2,692 | 3,598 |
| | **200,235** | **-** | **200,235** | 205,537 | 9,970 | 215,507 |

## 4. Finance costs

| | Group | |
|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 |
| Interest on bank loans, overdrafts and other loans wholly repayable within one year | **1,664** | 8,019 |
| Interest on a convertible note *(note 7)* | **1,044** | 2,665 |
| Total interest expenses on financial liabilities not at fair value through profit or loss | **2,708** | 10,684 |
| Attributable to discontinued operations | **-** | 1,944 |
| Attributable to continuing operations reported in the consolidated income statement | **2,708** | 8,740 |
| | **2,708** | 10,684 |

## 5. Profit before tax

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

| | Group | |
|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 |
| Depreciation | **2,509** | 10,194 |
| Amortisation on prepaid land lease payments | **1,563** | 2,886 |
| Impairment of goodwill arising from acquisition of associates | **-** | 1,900 |

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

## 6. Tax

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

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Group: | | |
| Current - Hong Kong | | |
| Charge for the year | **22,328** | 31,694 |
| Overprovision in prior years | **( 567)** | ( 7,488) |
| | **21,761** | 24,206 |
| Deferred | **651** | ( 1,761) |
| Total tax charge for the year | **22,412** | 22,445 |
| Tax charge attributable to discontinued operations | **-** | 2,273 |
| Tax charge attributable to continuing operations reported in the consolidated income statement | **22,412** | 20,172 |
| | **22,412** | 22,445 |

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

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

## 7. Earnings per share attributable to ordinary equity holders of the Company

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

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

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

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Earnings | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation : | | |
| From continuing operations | **265,282** | 269,804 |
| From discontinued operations | **-** | 511,119 |
| | **265,282** | 780,923 |
| Interest on a convertible note (note 4) | **1,044** | 2,665 |
| Profit attributable to ordinary equity holders of the Company before interest on convertible note | **266,326** | 783,588 |
| | | |
| Attributable to : | | |
| Continuing operations | **266,326** | 272,469 |
| Discontinued operations | **-** | 511,119 |
| | **266,326** | 783,588 |

| | Number of shares 2007 | 2006 |
|---|---|---|
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **9,137,080,820** | 8,845,883,344 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Convertible note | **168,195,937** | 473,819,650 |
| | | |
| Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation | **9,305,276,757** | 9,319,702,994 |

## 8. Trade debtors

The Group's trading terms with its customers are mainly on credit. The general credit terms allowed range from 0 to 30 days.

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

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

## 9. Trade creditors

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

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| More than 60 days | **1,046** | 977 |
| | **1,046** | 977 |

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

## FINAL DIVIDEND

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

## CLOSURE OF REGISTER OF MEMBERS

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

## MANAGEMENT DISCUSSION AND ANALYSIS

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

## BUSINESS REVIEW

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

***Property Investment Business***

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

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

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

***Infrastructure Business***

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

***Treasury Investment***

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

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

***PRC Trading Business***

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

## PROSPECT

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

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

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

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

**FINANCIAL REVIEW**

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

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

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

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

**LIQUIDITY AND FINANCIAL RESOURCES**

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

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

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

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

**EXCHANGE RISK**

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

**CAPITAL STRUCTURE**

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

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

**PLEDGE OF ASSETS**

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

**HUMAN RESOURCES PRACTICES**

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

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

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

**SIGNIFICANT INVESTMENTS**

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

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

**CORPORATE GOVERNANCE**

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

Throughout the accounting period under review, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), save and except that Mr Wong Wai Kwong, David resigned as independent non-executive Director, chairman and member of audit committee of the Company on 26 July 2007 because he needed to spend time defending himself in certain court proceedings and thus could not devote sufficient time to carry out his duties with the Company. By reason of Mr Wong's resignation, the number and qualifications of independent non-executive Directors failed to meet the requirements set out in Rule 3.10 of the Listing Rules, and the composition of the audit committee of the Company failed to meet the requirements under Rule 3.21 of the Listing Rules during the period from 26 July 2007 to 10 September 2007. Such deviation was remedied with the appointment of Mr. Luk Yu King, James as independent non-executive

Director, chairman and member of audit committee of the Company on 10 September 2007.

**MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

Following specific enquiry by the Company, each Director confirmed that throughout the accounting period under review, they had complied with the required standard set out in the Model Code and Directors Securities Dealing Code.

**AUDIT COMMITTEE**

The audit committee of the Company has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended 31 December 2007.

**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 Company's listed securities during the year.

**BOARD OF DIRECTORS**

As at the date of this announcement, the executive Directors are Mr. Cheung Chung Kiu, Mr. Yuen Wing Shing, Mr. Zhang Qing Xin, Mr. Lam Hiu Lo and Mr. Liang Kang; the non-executive Directors are Mr. Carmelo Lee Ka Sze and Mr. Wong Yat Fai; the independent non-executive Directors are Mr. Luk Yu King, James, Mr. Ng Kwok Fu and Mr. Leung Yu Ming, Steven.

**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.

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

Dated the 14th day of March 2008, Hong Kong SAR

** For identification only*