**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this composite offer document or the offers contained herein, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold** all your shares in Yu Ming Investments Limited, you should at once hand this document and the accompanying forms to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser.



# COMPOSITE OFFER DOCUMENT RELATING TO MANDATORY UNCONDITIONAL GENERAL CASH OFFERS BY YU MING INVESTMENT MANAGEMENT LIMITED

**on behalf of**

## BRIGHT CLEAR LIMITED
## (晴輝有限公司)

*(Incorporated in the British Virgin Islands with limited liability)*

**an indirect wholly-owned subsidiary of**

**ALLIED GROUP LIMITED**
**(聯合集團有限公司)**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 373)**

**for all issued shares and warrants of**

YU MING INVESTMENTS LIMITED
禹銘投資有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 666)**

**(other than those shares and warrants already owned by Bright Clear Limited and parties acting in concert with it)**

**Independent financial adviser to the independent board committee of Yu Ming Investments Limited**

CENTURION CORPORATE FINANCE LIMITED

A letter from Yu Ming Investment Management Limited containing, among other things, details of the terms of the offers is set out on pages 5 to 10 of this composite offer document. A letter from the board of directors of Yu Ming Investments Limited is set out on pages 11 to 14 of this composite offer document.

A letter from the independent board committee of Yu Ming Investments Limited to the independent shareholders and independent warrantholders of Yu Ming Investments Limited is set out on page 15 of this composite offer document. A letter from Centurion Corporate Finance Limited containing its opinion and advice to the independent board committee of Yu Ming Investments Limited is set out on pages 16 to 38 of this composite offer document.

The procedures for acceptance and settlement of the offers are set out in Appendix I of this composite offer document and in the accompanying forms. Acceptances of the offers for the shares and/or the warrants of Yu Ming Investments Limited must be received by Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on 1st June, 2009, or such later time as Bright Clear Limited may determine and announce in accordance with the Hong Kong Code on Takeovers and Mergers.

8th May, 2009

# CONTENTS

| | |
|---|---|
| Commencement of the Offers and posting date | 11th May, 2009 |
| Latest time and date for acceptance of the Offers | 4:00 p.m. on 1st June, 2009 |
| Closing date of the Offers *(Note 1)* | 1st June, 2009 |
| Announcement in respect of the closing of the Offers and the results of the Offers | No later than 7:00 p.m. on 1st June, 2009 |
| Latest date for posting of remittances for amounts due under the Offers in respect of valid acceptances received *(Note 2)* | 11th June, 2009 |

*Notes:*

1. The latest time and date for receipt of acceptances under the Offers will be 4:00 p.m. on 1st June, 2009 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. The Offeror will issue an announcement on the Stock Exchange's website by 7:00 p.m. on 1st June, 2009, stating the results of the Offers and whether the Offers have expired or have been revised or extended. In the event that the Offeror decides to extend the Offers, at least 14 days' notice in writing will be given, before the latest time and date for receipt of acceptances under the Offers, to those Independent Shareholders and Independent Warrantholders who have not accepted the Offers. For further details, please refer to the paragraph headed "Acceptance Period And Revisions" in Appendix I to this composite offer document.

2. Remittances in respect of the consideration (after deducting the seller's ad valorem stamp duty) payable for the Shares and Warrants under the Offers will be posted to the Accepting Shareholders and Accepting Warrantholders by ordinary post at their own risk as soon as practicable, but in any event within 10 days from the receipt of duly completed forms of acceptance by the Registrar from the Accepting Shareholders and Accepting Warrantholders.

3. Acceptances of the Offers shall be irrevocable and not be capable of being withdrawn, except as permitted under the Takeovers Code. Please refer to paragraph headed "Right Of Withdrawal" in Appendix I to this composite offer document for further information on the circumstances in which the Offers may be granted a right of withdrawal.

**All references to date and time contained in this composite offer document refer to Hong Kong time.**

*In this composite offer document, unless the context otherwise requires, the following expressions have the following meanings:*

| | |
|---|---|
| "2009 Offer Warrant(s)" | 2009 Warrant(s) not already owned by the Offeror and parties acting in concert with it |
| "2009 Warrant(s)" | the warrant(s) issued by the Company on 29th May, 2008, each entitling the holders thereof to subscribe for one new Share at an exercise price of HK$0.33 per Share (subject to adjustments) between 29th May, 2008 and 28th May, 2009 |
| "2009 Warrant Offer" | the mandatory unconditional general cash offer made by YMIM on behalf of the Offeror to acquire all the outstanding 2009 Warrants other than those already owned by the Offeror and parties acting in concert with it at HK$0.00001 per 2009 Warrant |
| "2009 Warrantholder(s)" | holder(s) of the 2009 Warrant(s) |
| "2011 Offer Warrant(s)" | 2011 Warrant(s) not already owned by the Offeror and parties acting in concert with it |
| "2011 Warrant(s)" | the warrant(s) issued by the Company on 23rd April, 2009, each entitling the holder thereof to subscribe for one new Share at an initial subscription price of HK$0.10 per Share (subject to adjustments) between 23rd April, 2009 and 22nd April, 2011 |
| "2011 Warrant Offer" | the mandatory unconditional general cash offer made by YMIM on behalf of the Offeror to acquire all the outstanding 2011 Warrants other than those already owned by the Offeror and parties acting in concert with it at HK$0.0001 per 2011 Warrant |
| "2011 Warrantholder(s)" | holder(s) of the 2011 Warrant(s) |
| "Accepting 2009 Warrantholders" | Independent Warrantholders who accept the 2009 Warrant Offer |
| "Accepting 2011 Warrantholders" | Independent Warrantholders who accept the 2011 Warrant Offer |
| "Accepting Shareholders" | Independent Shareholders who accept the Share Offer |
| "Accepting Warrantholders" | Accepting 2009 Warrantholders and Accepting 2011 Warrantholders |
| "acting in concert" | shall have the meaning set out in the Takeovers Code |

| | |
|---|---|
| "AGL" | Allied Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange |
| "Announcement Date" | 20th April, 2009, being the date of the joint announcement made by AGL, the Offeror and the Company in respect of the Offers |
| "associate(s)" | shall have the meaning set out in the Takeovers Code |
| "Board" | the board of directors of the Company, or the executive committee established by the board of directors with the full power of the board of the Company |
| "business day" | a day on which the Stock Exchange is open for the transaction of business |
| "CCASS" | the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited |
| "Centurion" | Centurion Corporate Finance Limited, a licensed corporation to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management under SFO), the independent financial adviser appointed to advise the Independent Board Committee in respect of the Offers |
| "Closing Date" | 1st June, 2009, or such later date as may be extended by the Offeror in accordance with the Takeovers Code |
| "Company" | Yu Ming Investments Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange |
| "Executive" | the executive director of the corporate finance division of the Securities and Futures Commission of Hong Kong or any of his delegates |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Independent Board Committee" | the independent board committee of the Company comprising Mr. Lee Yip Wah, Peter, Mr. So Shu Fai, Ambrose, Mr. Albert Ho and Ms. Lam Tak Yee in respect of the Offers |

| | |
|---|---|
| "Independent Shareholders" | Shareholders other than the Offeror and parties acting in concert with it |
| "Independent Warrantholders" | Warrantholders other than the Offeror and parties acting in concert with it |
| "Latest Practicable Date" | 8th May, 2009, being the latest practicable date prior to the printing of this composite offer document for the purposes of ascertaining certain information contained in this composite offer document |
| "Listing Rules" | The Rules Governing the Listing of Securities on the Stock Exchange |
| "offer period" | shall have the meaning set out in the Takeovers Code |
| "Offer Share(s)" | issued Shares other than those already owned by the Offeror and parties acting in concert with it |
| "Offer Warrant(s)" | 2009 Offer Warrant(s) and 2011 Offer Warrant(s) |
| "Offeror" | Bright Clear Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of AGL |
| "Offers" | the Share Offer, the 2009 Warrant Offer and the 2011 Warrant Offer |
| "Overseas Shareholder(s)" | Shareholder(s) whose addresses, as shown on the register of members of the Company, are outside Hong Kong |
| "Overseas Warrantholder(s)" | Warrantholder(s) whose addresses, as shown on the register of Warrantholders of the Company, are outside Hong Kong |
| "Registrar" | the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong |
| "Relevant Period" | the period from 20th October, 2008, being the date falling on the six months before the date of the joint announcement made by AGL, the Offeror and the Company in respect of the Offers, up to and including the Latest Practicable Date |

| | |
|---|---|
| "Rights Issue" | the issue for subscription by way of rights of 1,869,172,517 Rights Shares (with 2011 Warrants) at the subscription price of HK$0.10 on the basis of one Rights Share (with 2011 Warrants) for every one Share held on 24th March, 2009, which was completed on 17th April, 2009 |
| "Rights Share(s)" | Share(s) issued and allotted under the Rights Issue, being 1,869,172,517 Shares |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | ordinary share(s) of HK$0.10 each in the issued share capital of the Company |
| "Share Offer" | the mandatory unconditional general cash offer made by YMIM on behalf of the Offeror to acquire all the Shares other than those already owned by the Offeror and parties acting in concert with it |
| "Shareholder(s)" | holders of the Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Takeovers Code" | The Hong Kong Code on Takeovers and Mergers |
| "Title Document(s)" | the relevant Share or Warrant certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) |
| "Warrant(s)" | 2009 Warrant(s) and 2011 Warrant(s) |
| "Warrant Offers" | 2009 Warrant Offer and 2011 Warrant Offer |
| "Warrantholder(s)" | 2009 Warrantholder(s) and 2011 Warrantholder(s) |
| "YMIM" | Yu Ming Investment Management Limited, a company incorporated in Hong Kong with limited liability, the financial adviser to the Offeror in respect of the Offers, and a corporation licensed under the Securities and Futures Ordinance to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "%" | percentage or per cent |

YU MING INVESTMENT MANAGEMENT LIMITED
禹 銘 投 資 管 理 有 限 公 司

8th May, 2009

*To the Independent Shareholders and Independent Warrantholders,*

Dear Sir or Madam,

# MANDATORY UNCONDITIONAL GENERAL CASH OFFERS BY YU MING INVESTMENT MANAGEMENT LIMITED ON BEHALF OF BRIGHT CLEAR LIMITED FOR ALL ISSUED SHARES AND WARRANTS OF YU MING INVESTMENTS LIMITED (OTHER THAN THOSE SHARES AND WARRANTS ALREADY OWNED BY BRIGHT CLEAR LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

## INTRODUCTION

On 20th April, 2009, the Offeror, AGL and the Company jointly announced that following completion of the Rights Issue on 17th April, 2009, the Offeror has increased its shareholding in the Company by 1,541,137,874 Shares after taking up (i) all the 504,371,800 Rights Shares that it is entitled to under the Rights Issue and (ii) 1,036,766,074 excess Right Shares that had not been taken up by other Shareholders under the Rights Issue.

The allotment increased the shareholding of the Offeror in the Company to 2,045,509,674 Shares (representing approximately 54.72% of the total issued shares immediately following completion of the Rights Issue) from 504,371,800 Shares (representing approximately 26.98% of the total issued shares immediately before the completion of the Rights Issue).

Accordingly, the Offeror is required to make mandatory unconditional general cash offers for all the issued Shares and Warrants other than those already owned by the Offeror and parties acting in concert with it pursuant to Rules 26.1 and 13.1 of the Takeovers Code.

This letter sets out, amongst other things, the principal terms of the Offers, together with the information on the Offeror and AGL and the Offeror's intention regarding the Company. Further details of the Offers are also set out in Appendix I to this composite offer document and the accompanying forms of acceptance.

## THE OFFERS

### Terms of the Offers

We are making the Offers for and on behalf of the Offeror, subject to the terms set out in this composite offer document (including, without limitation, those in Appendix I to this composite offer document) and in the accompanying forms, to acquire all the issued Shares and Warrants not already owned by the Offeror and the parties acting in concert with it on the following basis:

**For each Share . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . HK$0.10 in cash**
**For each 2011 Warrant with an exercise price of HK$0.10. . . . . . . . . . HK$0.0001 in cash**
**For each 2009 Warrant with an exercise price of HK$0.33. . . . . . . . . HK$0.00001 in cash**

The Share Offer price is the same as the subscription price of a Rights Share under the Rights Issue. The Warrant Offers prices are nominal taking into consideration the see-through value of the 2009 Warrants and 2011 Warrants.

### Comparison of Share Offer price

The Share Offer price of HK$0.10 represents:

(i) a premium of approximately 2.0% over the closing price of HK$0.098 per Share as quoted on the Stock Exchange on 15th April, 2009 (being the last trading day for the Shares before the Announcement Date);

(ii) a premium of approximately 7.6% over the average closing price of HK$0.0929 per Share for the 10 trading days up to and including 15th April, 2009;

(iii) a premium of approximately 12.2% over the average closing price of HK$0.0891 per Share for the 30 trading days up to and including 15th April, 2009;

(iv) a discount of approximately 20.6% to the closing price of HK$0.126 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a discount of approximately 68.8% to the last audited consolidated net asset value per Share of approximately HK$0.32 as at 31st December, 2008.

### Value of the Offers

As disclosed in the letter from the Board contained in this composite offer document, the numbers of the Offer Shares, 2009 Offer Warrants and 2011 Offer Warrants are 1,692,835,360, 272,959,509 and 65,606,929 respectively as at the Latest Practicable Date. Therefore, the total consideration of the Offers amounts to an aggregate of approximately HK$169.3 million.

As at the Latest Practicable Date, all Offer Warrants are exercisable. If all 272,959,509 units of 2009 Offer Warrants and all 65,606,929 units of 2011 Offer Warrants are exercised and the 338,566,438 new Offer Shares are tendered under the Share Offer, the total consideration of the Offers will amount to approximately HK$203.1 million.

**Confirmation of financial resources**

The Offeror (i) will use shareholder's loan from its holding company, AGL, to implement the Offers and (ii) does not intend that the payment of interest on, repayment of or security for any liability (contingent or otherwise) will depend to any significant extent on the business of the Company. YMIM is satisfied that sufficient financial resources are available to the Offeror for the full implementation of the Offers.

**Effect of accepting the Offers**

By accepting the Offers, the Independent Shareholders and Independent Warrantholders will sell their Shares and Warrants fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them or subsequently becoming attached to them (for the Offer Shares, including all dividends and distributions declared, made or paid on or after the Announcement Date).

**Stamp duty**

Seller's ad valorem stamp duty for transfer of Shares and/or Warrants registered on the Registrar arising in connection with acceptance of the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer will be payable by the relevant Accepting Shareholder, Accepting 2009 Warrantholder and/or Accepting 2011 Warrantholder at the rate of HK$1.00 for every HK$1,000 (or part thereof) of the consideration payable by the Offeror in respect of the relevant acceptance, and will be deducted from the cash amount due to such Accepting Shareholders and Accepting Warrantholders.

**Overseas Shareholders and Overseas Warrantholders**

As the Offers to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are resident, Overseas Shareholders and Overseas Warrantholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. It is the responsibility of Overseas Shareholders and Overseas Warrantholders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offers (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

## INFORMATION ABOUT THE OFFEROR AND AGL

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of AGL. AGL is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Lee Seng Hui and Ms. Lee Su Hwei, directors of AGL, together with Mr. Lee Seng Huang, are the trustees of Lee and Lee Trust, being a discretionary trust which indirectly holds approximately 44.53% of the total issued shares in AGL as at the Latest Practicable Date.

The principal business activity of AGL is investment holding. The principal business activities of its major subsidiaries are property investment and development, hospitality related activities, health administration, medical scheme administration, the provision of healthcare services and the provision of financial services.

## OFFEROR'S INTENTION ON THE GROUP

The Offeror intends that the Group will continue its existing principal activities after the close of the Offers. Furthermore, it has no intention to introduce significant change to the existing management and directorship of the Company (including the continued employment of all employees and any redeployment of the fixed assets of the Group).

Under the Offers, the Offeror offers to acquire the Shares at a price lower than its intrinsic value (that is, net asset value) of the Shares. It is expected that as the global financial turmoil subsides, the market will reflect the intrinsic value of the Shares. Therefore, the Offers are in the long-term interests of the Offeror.

## MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing of the Shares and Warrants, and does not intend to exercise any rights to which may be available to it to acquire compulsorily any outstanding issued Shares and Warrants not tendered under the Offers after the Closing Date.

## PROCEDURES FOR ACCEPTANCES OF THE OFFERS

To accept the Offers, the Accepting Shareholders should complete the accompanying **WHITE** forms of acceptance for the Shares in accordance with the instructions printed thereon, the Accepting 2009 Warrantholders should complete the accompanying **PINK** forms of acceptance for the 2009 Warrants in accordance with the instructions printed thereon, and Accepting 2011 Warrantholders should complete the accompanying **BLUE** forms of acceptance for the 2011 Warrants in accordance with the instructions printed thereon.

The completed **WHITE** forms of acceptance should then be forwarded, together with the relevant Title Documents for not less than the number of the Shares in respect of which you intend to tender under the Share Offer, by post or by hand, to the Registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in an envelope marked "**Yu Ming Share Offer**" as soon as possible after the receipt of this composite offer document but in any event not later than 4:00 p.m. on the Closing Date.

The completed **PINK** or **BLUE** forms of acceptance should then be forwarded, together with the relevant Title Documents for not less than the number of the Warrants in respect of which you intend to tender under the Warrant Offers, by post or by hand, to the Registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in an envelope marked "**Yu Ming Warrant Offers**" as soon as possible after the receipt of this composite offer document but in any event not later than 4:00 p.m. on the Closing Date.

No acknowledgement of receipt of any forms of acceptance and the Title Documents will be given.

Your attention is drawn to the Appendix I to this composite offer document and the accompanying forms of acceptance.

**SETTLEMENT OF THE OFFERS**

Provided that the accompanying forms of acceptance for the Shares or Warrants, together with the relevant Title Documents, are valid, complete and in good order and have been received by the Registrar by no later than 4:00 p.m. on 1st June, 2009, a cheque for the amount due to each of the Accepting Shareholders and Accepting Warrantholders in respect of the Shares and Warrants tendered under the Offers, less seller's ad valorem stamp duty payable by them, will be despatched to the Accepting Shareholders and Accepting Warrantholders by ordinary post at their own risk within 10 days from the date of receipt of all relevant documents which render such acceptance complete and valid are received by the Registrar.

The consideration to which any Accepting Shareholder or Accepting Warrantholder is entitled under the Offers will be paid by the Offeror in full in accordance with the terms of the Offers set out in this composite offer document (including its appendices) and the accompanying forms of acceptance without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Accepting Shareholder or Accepting Warrantholder.

**GENERAL**

To ensure equality of treatment of all Shareholders and Warrantholders, those Shareholders and Warrantholders who hold the Shares or Warrants as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owner of the Shares or Warrants, whose investments are registered in nominee names, to accept the Offers, it is essential that they provide instructions to their nominees of their intentions with regard to the Offers.

All documents and remittances will be sent to the Independent Shareholders and Independent Warrantholders by ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members or register of Warrantholders, (or in case of joint holders, whose name appear first in the said register of members or register of Warrantholders), unless otherwise specified in the accompanying forms of acceptance completed, returned and received by the Registrar. None of the Offeror, the parties acting in concert with the Offeror, YMIM, the Company, the Registrar or any of their respective directors, officers, associates, agents or any other person involved in the Offers will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

**Independent Shareholders and Independent Warrantholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation and implications of accepting the Offers in respect of their Shares and Warrants.**

## ADDITIONAL INFORMATION

Independent Shareholders and Independent Warrantholders are advised to read carefully the letter from the Independent Board Committee and the letter from Centurion as contained in this composite offer document before deciding whether or not to accept the Offers.

You attention is also drawn to the further terms of the Offers, the additional information set out in the appendices to this composite offer document and the accompanying forms of acceptance.

Yours faithfully
For and on behalf of
**YU MING INVESTMENT MANAGEMENT LIMITED**
**Lee Wa Lun, Warren**
*Director*

YU MING INVESTMENTS LIMITED
禹銘投資有限公司

*(Incorporated in Hong Kong with limited liability)*
**(Stock Code : 666)**

*Executive Directors:*
Lee Wa Lun, Warren
Lo King Yau, Edwin
Wong Tai Chun, Mark

*Non-Executive Directors:*
Arthur George Dew
Lee Yip Wah, Peter

*Independent Non-Executive Directors:*
So Shu Fai, Ambrose
Albert Ho
Lam Tak Yee

*Registered Office:*
Room 1901B, 19th Floor
Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

8th May, 2009

*To the Independent Shareholders and Independent Warrantholders,*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL GENERAL CASH OFFERS BY YU MING INVESTMENT MANAGEMENT LIMITED ON BEHALF OF BRIGHT CLEAR LIMITED FOR ALL ISSUED SHARES AND WARRANTS OF YU MING INVESTMENTS LIMITED (OTHER THAN THOSE SHARES AND WARRANTS ALREADY OWNED BY BRIGHT CLEAR LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

## INTRODUCTION

On 20th April, 2009, the Offeror, AGL and the Company jointly announced that following completion of the Rights Issue on 17th April, 2009, the Offeror has increased its shareholding in the Company by 1,541,137,874 Shares after taking up (i) all the 504,371,800 Rights Shares that it is entitled to under the Rights Issue and (ii) 1,036,766,074 excess Right Shares that had not been taken up by other Shareholders under the Rights Issue.

The allotment increased the shareholding of the Offeror in the Company to 2,045,509,674 Shares (representing approximately 54.72% of the total issued shares immediately following completion of the Rights Issue) from 504,371,800 Shares (representing approximately 26.98% of the total issued shares immediately before the completion of the Rights Issue).

Accordingly, the Offeror is required to make mandatory unconditional general cash offers for all the issued Shares and Warrants other than those already owned by the Offeror and parties acting in concert with it pursuant to Rules 26.1 and 13.1 of the Takeovers Code.

The purpose of this composite offer document is to provide you with, among other things, information about the Company, the terms of the Offer and the letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders and Independent Warrantholders and the letter from Centurion containing its advice to the Independent Board Committee in respect of the Offers.

## THE OFFERS

YMIM is making the Offers on behalf of the Offeror, which is subject to the terms set out in this composite offer document (including, without limitation, those in Appendix I to this composite offer document) and in the accompanying forms of acceptance.

**For each Share. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .HK$0.10 in cash**
**For each 2011 Warrant with an exercise price of HK$0.10. . . . . . . . . .HK$0.0001 in cash**
**For each 2009 Warrant with an exercise price of HK$0.33. . . . . . . . . HK$0.00001 in cash**

The Share Offer price is the same as the subscription price of a Rights Share under the Rights Issue. The Warrant Offers prices are nominal taking into consideration the see-through value of the 2009 Warrants and 2011 Warrants.

## INFORMATION AND SHAREHOLDING STRUCTURE OF THE COMPANY

The Company is an investment company listed on the Main Board of the Stock Exchange under Chapter 21 of the Listing Rules. Principal activities of the Company are investments in listed and unlisted securities, bonds, direct investments, projects, properties and structured products.

The following table sets out a summary of the audited consolidated financial results of the Group for each of the two years ended 31st December, 2008:

| *(HK$'000)* | **31st December, 2008** | **31st December, 2007** |
|---|---|---|
| Revenue | 16,546 | 44,466 |
| Net profit/(loss) before taxation | (376,370) | 104,097 |
| Net profit/(loss) after taxation attributable to Shareholders | (376,370) | 145,204 |
| Total asset value | 621,818 | 1,018,564 |
| Net asset value | 598,172 | 991,771 |

As at the Latest Practicable Date, the shareholding structure of the Company is as follows:–

| | **Shares** | **Approx. %** |
|---|---|---|
| Offeror | 2,045,509,674 | 54.72 |
| Other Shareholders | 1,692,835,360 | 45.28 |
| Total | 3,738,345,034 | 100.00 |

As at the Latest Practicable Date, the Company has 373,833,869 units of 2009 Warrants and 373,834,503 units of 2011 Warrants outstanding each entitling the respective holders to subscribe for one Share, representing an aggregate of approximately 16.67% of the enlarged issued share capital of the Company assuming all the Warrants are exercised. The following table sets out all outstanding Warrants and those Warrants held by the Offeror:

| | **Total outstanding Warrants** | **Warrants held by the Offeror** |
|---|---|---|
| 2009 Warrants | | |
| (Exercise price: HK$0.33) | 373,833,869 | 100,874,360 |
| 2011 Warrants | | |
| (Exercise price: HK$0.10) | 373,834,503 | 308,227,574 |
| **Total** | **747,668,372** | **409,101,934** |

As at the Latest Practicable Date, (i) other than the Shares and the Warrants, the Company does not have other class of securities, outstanding options, derivatives, warrants or other securities which are convertible or exchangeable into Shares, and (ii) the Offeror and the parties acting in concert with it do not own, control or have interests in any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) in the Company other than the Shares and Warrants held by the Offeror disclosed above.

**MAINTAINING THE LISTING STATUS OF THE COMPANY**

The Offeror intends to maintain the listing of the Shares and Warrants, and does not intend to exercise any rights to which may be available to them to acquire compulsorily any outstanding issued Shares and Warrants not tendered under the Share Offers after the Closing Date.

**GENERAL**

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee shall comprise all non-executive directors of the Company who have no direct or indirect interest in the Offers (other than as Shareholders or Warrantholders). Mr. Arthur George Dew, a non-executive director of the Company, is also a non-executive director of AGL, a party acting in concert with the Offeror. Therefore, he is not considered sufficiently independent to advise the Independent Shareholders and Independent Warrantholders in respect of the Offers and was not appointed as a member of the Independent Board Committee.

Mr. Lee Yip Wah, Peter (being a non-executive director) and Mr. So Shu Fai, Ambrose, Mr. Albert Ho and Ms. Lam Tak Yee (being independent non-executive directors) have been appointed as members of the Independent Board Committee for consideration of and making of recommendations to the Independent Shareholders and Independent Warrantholders in respect of the terms of the Offers. Centurion has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Offers.

Mr. Lo King Yau, Edwin and Mr. Arthur George Dew are common directors of the Company and AGL, the holding company of the Offeror. As required by the Takeovers Code, Mr. Lo King Yau, Edwin and Mr. Arthur George Dew have stepped aside from taking an active role in the preparation of this letter in order to avoid any possible conflict of interest.

**RECOMMENDATION**

Your attention is drawn to the letter from the Independent Board Committee set out on page 15 of this composite offer document which contains its recommendation to the Independent Shareholders and Independent Warrantholders in respect of the Offers and the letter from Centurion which contains its advice to the Independent Board Committee in respect of the fairness and reasonableness of the Offers, and the principal factors and reasons it has considered before arriving at its advice to the Independent Board Committee. You are also advised to read this composite offer document and the accompanying forms of acceptance in respect of the acceptance and settlement procedures of the Offers.

Yours faithfully
For and on behalf of the Board
**YU MING INVESTMENTS LIMITED**
**Lee Wa Lun, Warren**
*Chairman*

YU MING INVESTMENTS LIMITED
禹銘投資有限公司

*(Incorporated in Hong Kong with limited liability)*
**(Stock Code : 666)**

8th May, 2009

*To the Independent Shareholders and Independent Warrantholders*

Dear Sir and Madam,

**MANDATORY UNCONDITIONAL GENERAL CASH OFFERS BY YU MING INVESTMENT MANAGEMENT LIMITED ON BEHALF OF BRIGHT CLEAR LIMITED FOR ALL ISSUED SHARES AND WARRANTS OF YU MING INVESTMENTS LIMITED (OTHER THAN THOSE SHARES AND WARRANTS ALREADY OWNED BY BRIGHT CLEAR LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

We have been appointed by the Board to form the Independent Board Committee to consider the terms of the Offers and to make recommendations to the Independent Shareholders and Independent Warrantholders in connection with the Offers, details of which are set out in the letter from the Board in the composite offer document dated 8th May, 2009 (the "Offer Document") of which this letter forms part. The terms used in this letter shall have the same meanings as defined in the Offer Document unless the context otherwise requires.

Centurion has been appointed as the independent financial adviser to advise us in respect of the terms of the Offers.

We wish to draw your attention to the letter from YMIM set out on pages 5 to 10 of the Offer Document which contains, inter alia, information about the Offers, and the letter of advice from Centurion set out on pages 16 to 38 of the Offer Document which contains its advice in respect of the terms of the Offers.

Having taken into account the advice of Centurion, we consider that the terms of the Offers are not fair and not reasonable so far as the Independent Shareholders and Independent Warrantholders are concerned. Accordingly, we recommend the Independent Shareholders and Independent Warrantholders not to accept the Offers.

Yours faithfully,
*INDEPENDENT BOARD COMMITTEE*
**YU MING INVESTMENTS LIMITED**
**Lee Yip Wah, Peter** **So Shu Fai, Ambrose**
**Albert Ho** **Lam Tak Yee**

*The following is the text of the letter of advice to the Independent Board Committee, the Independent Shareholders and the Independent Warrantholders from Centurion Corporate Finance Limited dated 8 May 2009 for incorporation in this composite offer document:–*

CENTURION CORPORATE FINANCE LIMITED
盛百利財務顧問有限公司

7th Floor, Duke Wellington House
14 -24 Wellington Street
Central, Hong Kong

香港中環
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威靈頓公爵大廈7樓

Telephone : (852) 2525 2128
(852) 2525 6026
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8 May 2009

*To the Independent Board Committee, the Independent Shareholders and the Independent Warrantholders of Yu Ming Investments Limited*

Dear Sirs,

**MANDATORY UNCONDITIONAL GENERAL CASH OFFERS BY YU MING INVESTMENT MANAGEMENT LIMITED ON BEHALF OF BRIGHT CLEAR LIMITED FOR ALL ISSUED SHARES AND WARRANTS OF YU MING INVESTMENTS LIMITED (OTHER THAN THOSE SHARES AND WARRANTS ALREADY OWNED BY BRIGHT CLEAR LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

## INTRODUCTION

We have been engaged to advise the Independent Board Committee, the Independent Shareholders and the Independent Warrantholders with respect to the Offers, details of which are outlined in the composite offer document jointly issued by the Company and the Offeror to the Shareholders dated 8 May 2009 ("Composite Offer Document") of which this letter forms a part.

We have been appointed to give an opinion as to whether the terms of the Offers are fair and reasonable in so far as the Independent Shareholders and the Independent Warrantholders are concerned. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Offer Document unless the context otherwise requires.

The Company, the Offeror and AGL jointly announced on 20 April 2009 that following the completion of the Rights Issue on 17 April 2009 and as a result of the allotment of additional Rights Shares to the Offeror, the shareholding of the Offeror in the Company has been increased from approximately 26.98% to approximately 54.72% of the total issued Shares. Therefore, the Offeror is required to make mandatory unconditional general cash offers for all the issued Shares and Warrants other than those already owned by the Offeror and parties acting in concert with it pursuant to the Takeovers Code.

YMIM, the financial adviser to the Offeror, is making the Offers on behalf of the Offeror. The Composite Offer Document and the accompanying form of acceptance together set out the terms of, and certain other information relating to, the Offers.

The Company has established the Independent Board Committee, comprising a non-executive director (Mr. Lee Yip Wah, Peter) and all independent non-executive directors of the Company (including Mr. So Shu Fai, Ambrose, Mr. Albert Ho and Ms. Lam Tak Yee) to advise the Independent Shareholders and Independent Warrantholders.

Mr. Arthur George Dew, a non-executive director of the Company, is also a non-executive director of AGL, a party acting in concert with the Offeror. Therefore, he is not considered sufficiently independent to advise the Independent Shareholders and Independent Warrantholders in respect of the Offers and was not appointed as a member of the Independent Board Committee.

We are not associated with the Company, the Offeror, AGL, their respective substantial shareholders, or any of their respective parties acting, or presumed to be, acting in concert with any of them. Therefore, we are considered suitable to give our letter of independent advice on the terms of the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, any of the parties involved in the Company, the Offeror, their respective substantial shareholders, or any of their respective parties acting, or presumed to be acting, in concert with any of them.

## BASIS OF OUR OPINION

In formulating our opinions and recommendations, we have relied on the accuracy of the information, opinions and representation contained in the Composite Offer Document, the Company's annual reports and other publicly available documents of the Company, which have been provided to us by the executive directors of the Company and for which they take full responsibility. We have assumed that all statements, information, opinions and representations made or referred to in the Composite Offer Document were true at the time they were made and continued to be true at the date of the Composite Offer Document. We have also assumed that all statements of belief, opinions and intentions made by the directors of the Company in the Composite Offer Document are reasonably made after due and careful enquiry.

In respect of the financial information of the Group, we have relied principally on its audited and/or unaudited financial statements, all prepared by the Company and for which the directors of the Company take full responsibility. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and/or referred to in the Composite Offer Document.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the executive directors of the Company. We consider that we have reviewed sufficient financial information to enable us to reach an informed view and to justify reliance on the accuracy of the information as contained in the Composite Offer Document to provide a reasonable basis for our opinions and recommendations. We have not, however, conducted any form of independent or in-depth investigation into the businesses, financial positions, or prospects of the Group, the Offeror, AGL, or any of their respective subsidiaries or associates, nor have we independently verified any of the information supplied to us.

We have not considered the tax consequences on the Independent Shareholders and the Independent Warrantholders accepting or not accepting the Offers since these are particular to their individual circumstances. It should therefore be noted that we will not accept responsibility for any tax effect on or liability of any person resulting from his or her acceptance or non-acceptance of the Offers. In particular, Overseas Shareholders and Overseas Warrantholders who, being residents overseas, are subject to overseas taxes or Hong Kong taxes on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

Our opinions and recommendations as set out herein are for the sole purpose of the Offers only and shall not be used for any other purposes.

**TERMS OF THE OFFERS**

The terms of the Offers sets out in the "Letter From YMIM" are summarized below. YMIM is making the Offers, on behalf of the Offeror, on the terms as set out in the Composite Offer Document (including, without limitation, the further terms of the Offers set out in Appendix I to the Composite Offer Document) and in the accompanying form of acceptance, to acquire all the Offer Shares and Offer Warrants on the following basis:

**For each Share .............................................. HK$0.1 in cash**

**For each 2011 Warrant with an exercise price of HK$0.10 ........ HK$0.0001 in cash**

**For each 2009 Warrant with an exercise price of HK$0.33 ....... HK$0.00001 in cash**

The Share Offer price is the same as the subscription price of a Rights Share under the Rights Issue. The Warrant Offers prices are nominal taking into consideration the see-through value of the 2009 Warrants and 2011 Warrants.

Further details of the Offers are set out in the "Letter From YMIM" in the Composite Offer Document. By accepting the Offers, the Independent Shareholders and Independent Warrantholders shall sell their Offer Shares and Offer Warrants fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature together with all rights attached to them or subsequently becoming attached to them (for the Offer Shares, including all dividends and distributions declared, made or paid on or after the Announcement Date).

The ability of Overseas Shareholders and Overseas Warrantholders to participate in the Offers is subject to, and may be limited by, the laws and regulations of their respective jurisdictions. For further details, please refer to the "Letter From YMIM" and the section headed "Overseas Shareholders and Overseas Warrantholders" as set out therein and in the Appendix I to the Composite Offer Document.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendations, we have taken into consideration the following principal factors and reasons:

## A. THE SHARE OFFER

### 1. The Share Offer

*1.1 The Share Offer and the Share Offer price*

As set out in the "Letter From YMIM", following completion of the Rights Issue on 17 April 2009, the Offeror, an indirect wholly-owned subsidiary of AGL, was allotted 1,541,137,874 Shares, being the sum of (i) the 504,371,800 Rights Shares that it is entitled to under the Rights Issue and (ii) 1,036,766,074 excess Right Shares that had not been taken up by other Shareholders under the Rights Issue.

The allotment increased the shareholding of the Offeror in the Company to 2,045,509,674 Shares (representing approximately 54.72% of the total issued shares immediately following completion of the Rights Issue) from 504,371,800 Shares (representing approximately 26.98% of the total issued shares immediately before the completion of the Rights Issue).

Accordingly, the Offeror is required to make mandatory unconditional general cash offers for all the issued Shares and Warrants other than those already owned by the Offeror and parties acting in concert with it pursuant to Rules 26.1 and 13.1 of the Takeovers Code.

The Share Offer price of HK$0.10 per Offer Share is thus the same as the subscription price of a Rights Share under the Rights Issue.

*1.2 Comparison of the Share Offer price to market prices/net assets per Share*

As the total number of the Offer Shares was 1,692,835,360 as at the Latest Practicable Date, the total consideration of the Share Offers amounted to approximately HK$169.3 million. As all Offer Warrants are exercisable, if all 272,959,509 2009 Offer Warrants and all 65,606,929 2011 Offer Warrants were to be exercised and the 338,566,438 new Offer Shares were to be tendered under the Share Offer, the total consideration of the Share Offer would amount to approximately HK$203.1 million.

On the basis of 3,738,345,034 Shares in issue as at the Latest Practicable Date, the Share Offer values the equity value of the Company at HK$373,834,503. The following table summarises recent milestone events which may have affected market price of the Shares.

Table A: Recent important milestone events which may affect the Share price

| Trading Date | Events announced or important milestones | Closing Share Price |
|---|---|---|
| Friday, 8 May 2009 | Latest Practicable Date | HK$0.126 |
| Tuesday, 21 April 2009 | Resumption of trading of the Shares following the announcements of the Offers and the Rights Issue results respectively | HK$0.100 |
| Wednesday, 15 April 2009 | Last date of trading of the Shares before trading suspended on 16 April 2009 pending the release of the Offers announcement | HK$0.098 |
| Monday, 16 February 2009 | Resumption of trading of the Shares following announcement of the Rights Issue | HK$0.107 |
| Thursday, 12 February 2009 | Last date of trading of the Shares before trading suspended on 13 February 2009 pending the release of the Rights Issue announcement | HK$0.100 |
| Tuesday, 30 December 2008 | Unusual price and trading volume announcement released in respect of the sale of 44,250,000 Shares by a minority Shareholder to its wholly-owned subsidiaries | HK$0.114 |
| Thursday, 20 November 2008 | Closing price per Share dropped to a record low | HK$0.062 |
| Monday, 27 October 2008 | Hang Seng Index declined to a record closing low of 11,015 | HK$0.070 |
| Thursday, 16 October 2008 | First time Shares traded at below the Share Offer price of HK$0.10 based on closing price per Share | HK$0.090 |

Based on the above, and in the order of the numbered paragraphs in the section headed "Comparison of Share Offer price" set out in the "Letter From YMIM", the Share Offer price of HK$0.10 represents:–

(i) a premium of approximately 2.0% over the closing price of HK$0.098 per Share as quoted on the Stock Exchange on 15 April 2009 (being the last trading day for the Shares prior to the Announcement Date);

(ii) a premium of approximately 7.6% over the average closing price of HK$0.0929 per Share for the 10 trading days up to and including 15 April 2009;

(iii) a premium of approximately 12.2% over the average closing price of HK$0.0891 per Share for the 30 trading days up to and including 15 April 2009;

(iv) a discount of approximately 20.6% to the closing price of HK$0.126 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a discount of approximately 68.8% to the last audited consolidated net asset value per Share of approximately HK$0.32 as at 31 December 2008.

In addition, the Share Offer price of HK$0.10 also represents:–

A discount to the published unaudited consolidated net asset value per Share of the Company for each of the three months subsequent to December 2008. For further details of such discount to net assets value, please refer to the section below headed "6. Net assets of the Group".

Highest and lowest closing prices of the Shares

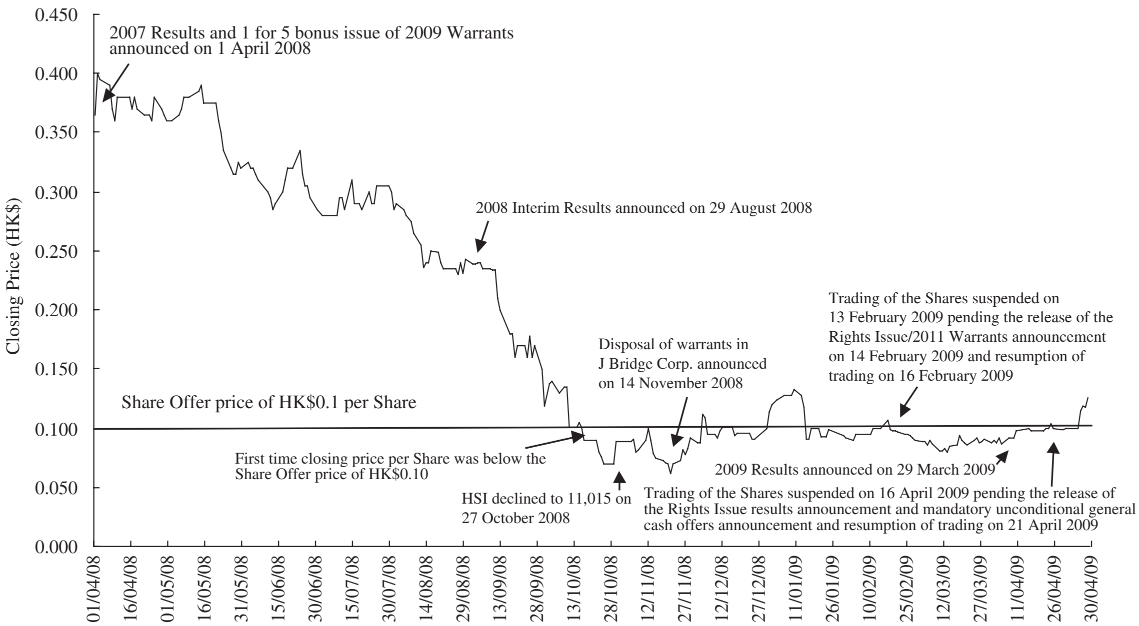
For the purpose of this letter of independent advice, we have chosen the period from 1 April 2008 (being the first trading day of the 12 calendar months prior to the Announcement Date) to the Latest Practicable Date as the review period ("Review Period"), which was chosen on the basis that such time frame should be adequate to cover various recent milestone events reasonably expected to affect the Share prices and trading volume. During the Review Period, the highest closing price of the Shares was HK$0.400 per Share as quoted on the Stock Exchange on 2 April 2008 and the lowest closing price of the Shares was HK$0.062 per Share as first quoted on the Stock Exchange on 20 November 2008. The following table summarises the highest and the lowest closing prices of the Shares during the Review Period:

Table B: Highest and lowest Share prices comparison during the Review Period

| **Month/Period** | **Highest closing price** *(HK$)* | **Lowest closing price** *(HK$)* | **Weighted average daily closing price** *(HK$)* |
|---|---|---|---|
| **2008** | | | |
| April | 0.400 | 0.036 | 0.372 |
| May | 0.390 | 0.315 | 0.356 |
| June | 0.335 | 0.285 | 0.308 |
| July | 0.310 | 0.280 | 0.291 |
| August | 0.290 | 0.230 | 0.248 |
| September | 0.240 | 0.119 | 0.162 |
| October | 0.140 | 0.070 | 0.091 |
| November | 0.100 | 0.062 | 0.080 |
| December | 0.120 | 0.088 | 0.113 |
| **2009** | | | |
| January | 0.133 | 0.091 | 0.098 |
| February | 0.107 | 0.090 | 0.100 |
| March | 0.094 | 0.080 | 0.088 |
| April | 0.104 | 0.087 | 0.100 |
| May (up to the Latest Practicable Date) | 0.126 | 0.100 | 0.116 |

The following chart illustrates the Share Offer price of HK$0.10 per Share as compared to the daily closing price of the Shares as quoted on the Stock Exchange during the Review Period:

Chart I: Closing Share prices chart during the Review Period




*Source: website of the Stock Exchange – www.hkex.com.hk*

The above chart illustrates that during the Review Period, the closing price of the Shares on the Stock Exchange ranged between HK$0.062 to HK$0.400 per Share. The closing price per Share on the Latest Practicable Date was HK$0.126.

The daily closing price of the Shares during the Review Period has shown considerable volatility. During the Review Period, the trading date on which the daily closing price per Share was below the Share Offer price of HK$0.10 per Share for the first time was on 16 October 2008, with the then closing price per Share of HK$0.091. Since the announcement of the Rights Issue on 14 February 2009 and except on the two trading dates on respectively, 16 February 2009 (the closing price per Share was HK$0.107) and on 14 April 2009 (the closing price per Share was HK$0.10) and on the trading dates after 4 May 2009, the closing prices per Share had consistently been trading below the Offer Share price of HK$0.10. The closing price on 21 April 2009, being the first trading day after the Announcement Date, was HK$0.100 per Share. The closing prices per Share after 21 April 2009 were consistently trading close to the Share Offer price of HK$0.10. These price movements during the Offers period are driven by the underlying valuation of the Share Offer price of HK$0.10.

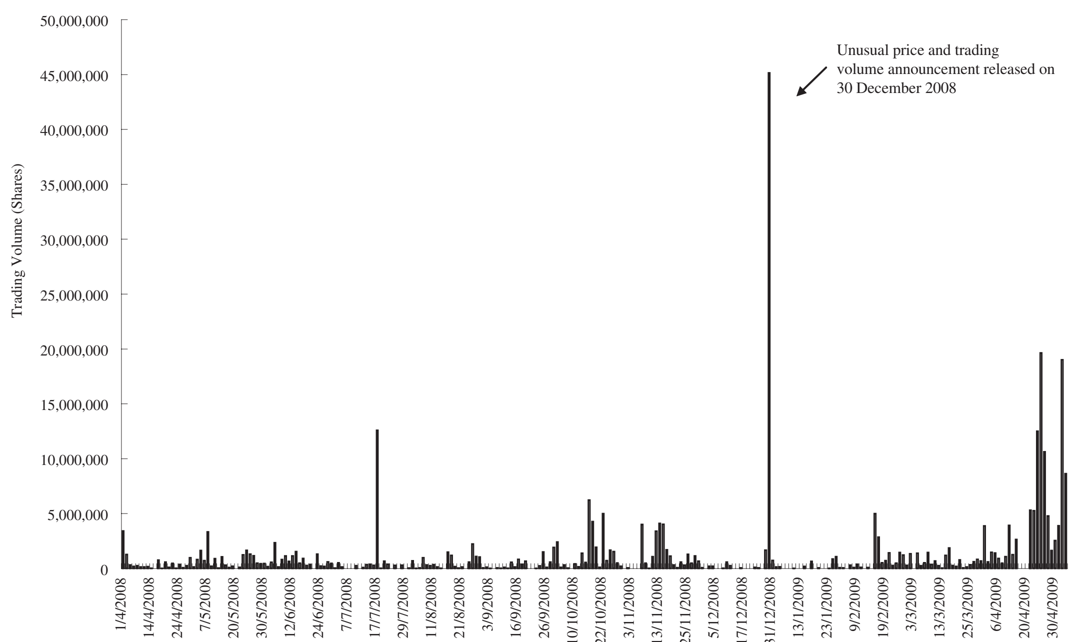
The major fluctuations and decline in the closing prices per Shares throughout the last few months of the Review Period was likely the result of global stock markets volatility, which on 27 October 2008, Hang Seng Index reached a record low of 11,015. The global financial markets turmoil in the second half of 2008 has had a material impact on the Company's investments, in particular, listed stocks and bonds and other structured products.

The fact that the Shares have historically been trading at a discount to the consolidated net asset value per Share during the Review Period is noted. We believe this non performance of market price per Share (and also the thin trading volume of the Shares detailed in section below) could be rationalised by the reasons set out in the section headed "Trading volume of the Shares" below.

**2. Trading volume of the Shares**

The chart below illustrates the trading volume of the Shares on the Stock Exchange during the Review Period:

Chart II: Trading Volume of the Shares during the Review Period




*Source: website of the Stock Exchange – www.hkex.com.hk*

As set out in the above chart, excluding the unusual increase in trading volume (and price) due to the sale of 44,250,000 Shares by a minority Shareholder with below 5% notifiable interest to its wholly-owned subsidiary as set out in the Company's unusual price and trading volume announcement dated 30 December 2008, the daily trading volume of the Shares on the Stock Exchange during the Review Period was very thinly traded, sometimes even with nil trading volume. Daily and monthly trading volume, while remain thin, had increased from January 2009 after the announcement of the Rights Issue on 14 February 2009. Beginning from April 2009 and up to the Latest Practicable Date, trading volume of the Shares increased considerably and in fact, the percentage of the total monthly trading volume to public float reached 5.34% in April, the highest during the Review Period.

The following table highlights the number of Shares traded on the Stock Exchange in each calendar month during the Review Period:

Table C: Monthly adjusted trading volume of the Shares during the Review Period

| **Month/Period** | **Total monthly trading volume** | **Average daily trading volume** | **Percentage of total monthly trading volume to total issued share capital** | **Percentage of total monthly trading volume to public float Shares held by Shareholders** |
|---|---|---|---|---|
| | | | *(Note 1)* | *(Note 2)* |
| | *(Shares)* | *(Shares)* | *(%)* | *(%)* |
| **2008** | | | | |
| April | 9,880,000 | 470,476 | 0.53 | 0.73 |
| May | 16,306,000 | 815,300 | 0.87 | 1.20 |
| June | 13,550,000 | 677,500 | 0.72 | 0.99 |
| July | 17,142,000 | 779,182 | 0.92 | 1.26 |
| August | 10,282,000 | 541,158 | 0.55 | 0.76 |
| September | 7,500,000 | 357,143 | 0.40 | 0.55 |
| October | 27,768,000 | 1,322,286 | 1.49 | 2.04 |
| November | 24,992,000 | 1,249,600 | 1.34 | 1.83 |
| December | 49,222,000 | 2,343,905 | 2.63 | 3.61 |
| **2009** | | | | |
| January | 3,220,000 | 178,889 | 0.17 | 0.24 |
| February | 15,556,000 | 818,737 | 0.83 | 1.14 |
| March | 17,349,213 | 788,601 | 0.93 | 1.27 |
| April | 76,242,221 | 4,484,837 | 3.40 | 5.34 |
| May (up to the Latest Practicable Date) | 37,786,630 | 7,557,326 | 1.01 | 2.24 |

*Note 1:* Based on 1,869,172,517 Shares, being the total number of Shares in issue immediately before completion of the Rights Issue (for April 2008, such weighted adjusted total number of Shares in issue was 2,243,007,020) (such adjusted no. of share was based on the calendar days and 27 April 2009, the date on which Rights Shares are available for trading)

*Note 2:* Based on 1,362,250,717 Shares, being the total number of Shares held by Independent Shareholders counted as public float (i.e. excluding Messrs. Lee Yip Wah, Peter and Albert Ho) immediately before completion of the Rights Issue (for April 2008, such weighted adjusted total number of Shares was 1,427,471,645) (such adjusted no. of shares was based on the same basis as in Note 1 above)

The above table shows that the number of Shares traded on the Stock Exchange during the Review Period as compared to the number of total issued Shares held in public hands (i.e. excluding those shareholdings held by non public Shareholders, namely AGL, Messrs. Lee Yip Wah, Peter and Albert Ho) ranges from 0.24% to 5.34%. Taking into account the sudden surge in the trading volume of the Shares on two occasions during the Review Period due to the unusual price and trading volume announcement on 30 December 2008 (when 44,250,000 Shares were sold by a minority Shareholder), the daily turnover of 12,600,000 Shares on 17 July 2008 and the aggregated turnover of 42,794,002 for the three trading days on 23, 24 and 27 April respectively, we are of the view that the liquidity of the Shares as evidenced by its daily or monthly trading volume is relatively low.

Amongst the Independent Shareholders, we have noted the presence of large professional and/or institutional Independent Shareholders, which had an interest either as founder or managing Shareholders or long term strategic investors. These Shareholders are Mr. Fung Wing Cheung, Tony, Poly (Hong Kong) Investments Limited and Ms. Chong Sok Un. Such Shareholders tend to be less active in trading their Shares than say, retail public Shareholders, as evidenced by their respective shareholdings set out in the Company's annual reports and public documents. However, if the aggregate shareholdings of these large professional and/or institutional Independent Shareholders were to be excluded, the remaining public float would still be approximately 51.22% immediately before completion of the Rights Issue, based on the shareholding information set out in the Rights Issue results announcement dated 20 April 2009. This 51.22% public float is considered large and we are not aware of any reason for such low liquidity other than the possibility that the depressed market conditions during the Review Period were not conducive to the price and volume formation of the Shares.

**3. An overview of the Company's business and its operating environment**

The Company is a close-end investment company listed on the Main Board of the Stock Exchange under Chapter 21 of the Listing Rules (which governs the listing of investment companies) and the Company is principally engaged in the investments in listed and unlisted securities, bonds, direct investments, projects and structured products.

**4. Past results of the Group, its implied price-earnings multiples and market comparables**

The following table highlights the Company's audited consolidated results for the three years ended 31 December 2008 as extracted from the Company's annual reports:

Table D: Past three years' results highlights of the Group on an audited consolidated basis

| | For the year ended 31 Dec, 2008 (Audited) *(HK$'000)* | For the year ended 31 Dec, 2007 (Audited) *(HK$'000)* | For the year ended 31 Dec, 2006 (Audited) *(HK$'000)* |
|---|---|---|---|
| **Continuing operations:** | | | |
| Revenue | 16,546 | 44,466 | 95,242 |
| Other net (loss)/income | (370,412) | 87,138 | 16,795 |
| Administrative and other operating expenses | (22,504) | (36,709) | (33,378) |
| Operating (loss)/profit | (376,370) | 94,895 | 78,659 |
| Derecognition of available-for-sale financial assets and other receivable | – | – | (190,190) |
| Gain on disposal of a subsidiary and a jointly controlled entity | – | 16,206 | – |
| Finance costs | – | (8,754) | (5,417) |
| Share of results of associates | – | – | (11,920) |
| Share of results of a jointly controlled entity | – | 1,750 | 4,458 |
| (Loss)/profit before income tax | (376,370) | 104,097 | (124,410) |
| Income tax (expense)/credit | – | (1,210) | 195,000 |
| (Loss)/profit for the year from continuing operations | (376,370) | 102,887 | (124,215) |
| Discontinued operations:– | | | |
| New result from discontinued operations | – | 61,129 | 8,619 |
| (Loss)/profit for the year | (376,370) | 164,017 | (115,596) |
| (Loss)/profit attributable to equity holders of the Company | (376,370) | 145,204 | (155,693) |
| (Loss)/earnings per Share attributable to equity holders of the Company | (HK$0.2014) | HK$0.0796 | (HK$0.0921) |
| Price-earnings multiple as represented by the Share Offer price of HK$0.10 on earnings per Share | N.A. | 1.25 times | N.A. |

The historical price-earnings multiple of the Company in 2007 is in our view, not relevant for the analysis of the fairness and reasonableness of the Share Offer price of HK$0.10 per Offer Share, on the following bases.

The Company was at a loss position for each of the two years ended 31 December 2008 and 2006 respectively. In addition, being a close-end investment fund, the Company does not own a principal business that produces a steady recurrent income and on which, a price-earnings multiple could be used to measure its Share price performance and valuation. The Company's stated objective is to invest in assets which offer good return and historically, such return was achieved through assets appreciation and disposal.

For the three years under review, the Company did have dividends income, albeit with fluctuated amounts. For the three years ended 31 December 2006, 2007 and 2008, the Company's income from dividends amounted to approximately HK$86.5 million, HK$30.9 million and HK$9.7 million respectively. Nearly all its dividends income for the two years ended 31 December 2007 was from unlisted investments, all of which have since been disposed. For the year ended 31 December 2008, all its dividends income was from listed investments. Given that nearly all its dividends income for the two years ended 31 December 2007 was from direct investments in private companies, the nature of which is quite different from those dividends income derived from listed securities for the year ended 31 December 2008, we therefore do not consider the Company's income from dividends comparable for the three years under review.

Further, beginning 2007, the Company began to divest its direct investments in large projects such as AsiaWorld-Expo and investment properties, each of which had a considerable investment amount. Thus the disposal or non disposal of any of these investments in any one of the fiscal years under review would might have a material impact on its earnings.

In light of the aforesaid, we are of the opinion that the price-earnings multiple as set out above is not a reliable measurement of its performance.

*4.1 For the year ended 31 December 2008*

As set out in the Company's 2008 annual report, operating loss and net profit attributable to equity holders of the Company were approximately HK$376.4 million for the year ended 31 December 2008. The Group's major income for the year ended 31 December 2008 was derived from the non-refundable payments received for the sale of the Group's interests in the shares of Grand China Air Company Limited, gain on disposal of J. Bridge warrants (J. Bridge Corporation is an investment company listed on the Tokyo Stock Exchange), arrangement fee income for sale of shares in Rotol Singapore Limited, dividend and interest income.

The net operating loss of the Group amounted to HK$376.4 million which included realized net losses of approximately HK$87.9 million on disposal of listed securities and an impairment loss of approximately HK$6.3 million for certain available-for-sale investment acquired before 2007. A total net loss of approximately HK$366.6 million was recognized as changes in fair value in listed and unlisted securities for the year ended 31 December 2008.

*4.2 For the year ended 31 December 2007*

Operating profit was approximately HK$94.9 million and net profit attributable to equity holders of the Company was approximately HK$145.2 million for the year ended 31 December 2007.

During the year, the Company's interests in investment properties and AsiaWorld-Expo were sold. Completion of such sales took place in December and September respectively and as a result, the Group's income in 2007 still included a substantial amount from investment properties and AsiaWorld-Expo, in addition to listed securities, bonds and interest income.

Net income (after financing costs and minority interests) from the Company's interests in AsiaWorld-Expo amounted to HK$15.64 million, mainly derived from accrued preference dividends, and to a lesser extent management fee.

The retail property market remained tepid in 2007. Net income (after financing costs and minority interests) attributable to the Group amounted to HK$15.09 million. Investment in securities and bonds reported a good profit of HK$87.56 million.

*4.3 For the year ended 31 December 2006*

Operating profit was approximately HK$78.7 million and net loss attributable to equity holders of the Company was approximately HK$155.7 million for the year ended 31 December 2006.

The Group's major investments were in (i) AsiaWorld-Expo (the largest exhibition facility in Hong Kong); (ii) retail properties in Mongkok and Causeway Bay; (iii) Grand China Air Company Limited ("Grand China", a holding company of airlines in Hong Kong and China); and (iv) a portfolio of debts and equities.

During the year under review, AsiaWorld-Expo had its first full year of operation, and the Group recognized a good income from its preference shares investment in it. The retail property market remained steady, together with the opening of the shopping mall "timeplus" in Causeway Bay in November 2006, the Group's rental income had a modest growth. Investments in high-yield bonds and equities reported a modest profit.

The HK$190.19 million charge to the income statement was the derecognition of the CR Airways Limited's financial assets and as a result, its carrying value in the aggregate amount of HK$190.19 million was entirely charged to the income statement. The background to this charge against income statement was due to the registration difficulties of the swap of the Company's investment in CR Airways Limited in 2006 for investment in Grand China. In view of such title uncertainty and the lack of co-operation from Grand China, the Group failed to recognize the Grand China shares and made a decision for derecognising such investment.

## 5. Cash offer market comparables not available

To determine whether or not the Share Offer price of HK$0.10 is fair and reasonable, we have reviewed all the general cash offers made in the Review Period for listed issuers whose shares are listed on the Stock Exchange. None of these companies is a close-end fund investment company principally engaged in investment activities similar to that of the Company and thus in our view, these general cash offers are not comparable to the Company due to its rather unique business model and the way in which its profits are generated.

## 6. Net assets of the Group

As at 31 December 2008, the Company's audited consolidated balance sheet had total assets of HK$621.8 million, when viewed against its total liabilities of HK$23.6 million, resulted in net assets of HK$598.2 million, or HK$0.32 per Share. For the reason set out above, we are of the view that being a close-end fund, the Company's net assets per Share is probably a more important indicator than say, its net profit per Share. Our view is further supported by the fact that the Company's management agreement also contains a performance fee based on the level of increase in its audited net assets but not on a net profit per Share basis. Following the Company's disposal of interests in investment properties and AsiaWorld-Expo in 2007, the Company's investments are largely listed securities, which have been "marked to market" and reflected in its net asset value publication.

The Group's net assets as at 31 December 2008 as mentioned above fell by approximately 40%. As set out in the "Chairman's Statement" in the 2008 annual report of the Company, the decline of 48% and 51% in Hang Seng Index and Hang Seng China Enterprises Index respectively in 2008 were cited as comparison. The following table summarises the Group's net asset value for the six months ended 31 March 2009:

Table E: Consolidated net assets value of the Group for the six months ended 31 March 2009

| | |
|---|---|
| Unaudited pro forma consolidated net tangible assets per Share after the Rights Issue adjusted based on net asset value of the Group as at 28 February 2009 as set out in the Rights Issue prospectus dated 26 March 2009 | HK$0.198 |
| Unaudited net asset value per Share as at 31 March 2009 | HK$0.31 |
| Unaudited net asset value per Share as at 28 February 2009 | HK$0.29 |
| Unaudited net asset value per Share as at 31 January 2009 | HK$0.30 |
| Audited net asset value per Share as at 31 December 2009 | HK$0.32 |
| Unaudited net asset value per Share as at 30 November 2008 | HK$0.28 |
| Unaudited net asset value per Share as at 31 October 2008 | HK$0.28 |

It should be noted that on 27 October 2008, when Hang Seng Index declined to a record closing low of 11,015, the Company's consolidated net asset value per Share as at 31 October 2008 was HK$0.28. The Hang Seng Index has since recovered considerably and closed at 13,576 on 31 March 2009, a rise of approximately 23.3% from such record low. While the Company's consolidated net asset value of HK$0.31 as at 31 March 2009, when viewed against such improved market conditions, did not exhibit any significant rise in such net asset value. This is because the Company's portfolio contains certain holdings in banking or financial services stocks, which either as a reason for, or a result of, the financial crisis in late 2008, suffered the largest declines in share prices. The stabilisation of such share prices were only more visible beginning the month of April 2009.

Independent Shareholders and Independent Warrantholders should also note that it is not uncommon for close-end funds like that of the Company to trade at a discount to its net asset value. The global stock market meltdown and the financial crisis beginning late last year as a result of, among other problems, the collapse of Lehman Brothers, have no doubt contributed to the deepening of such discount to net asset value. To support our view, the following table provides a summary of selected market comparables. This list of comparable fund management companies is exhaustive (those with market capitalisation less than HK$50 million or more than HK$1 billion as at the Latest Practicable Date are excluded, as we consider them not comparables):–

Table F: Share prices vs. net assets values of comparable fund management companies

| **Company** | **Stock Code** | **Market Cap. (based on closing share price as at the Latest Practicable Date)** *(HK$'million)* | **Net asset value pre share (as at 31 March 2009)** | **Closing share price as at the Latest Practicable Date** *(HK$)* | **Premium/ (Discount) to NAV as represented by share price** % |
|---|---|---|---|---|---|
| China Assets (Holdings) Limited | 170 | 265 | US$2.0532 | 3.460 | (78.34%) |
| China Innovation Investment Limited | 1217 | 320 | HK$0.05 | 0.062 | 24% |
| China Investment Fund Company Limited | 612 | 124 | HK$0.08 | 0.115 | 43.75% |
| Grand Investment International Limited | 1,160 | 52 | HK$0.032 | 0.300 | (6%) |
| Harmony Asset Limited | 428 | 146 | HK$5.09 | 3.750 | (26%) |
| Mastermind Capital Limited | 905 | 186 | HK$0.019 | 0.129 | 579% |
| National Investments Fund Limited | 1227 | 115 | HK$0.024 | 0.088 | 267% |
| New Capital International Investment Limited | 1062 | 84 | HK$0.2554 | 0.123 | (52%) |

| Company | Stock Code | Market Cap. (based on closing share price as at the Latest Practicable Date) | Net asset value pre share (as at 31 March 2009) | Closing share price as at the Latest Practicable Date | Premium/ (Discount) to NAV as represented by share price |
|---|---|---|---|---|---|
| | | *(HK$'million)* | | *(HK$)* | % |
| Opes Asia Development Limited | 810 | 241 | HK$0.0466 | 0.150 | 222% |
| OP Financial Investments Limited | 1140 | 533 | HK$1.19 | 0.680 | (43%) |
| Prime Investments Holdings Limited | 721 | 179 | HK$0.08 | 0.072 | (10%) |
| Prosperity Investment Holdings Limited | 310 | 136 | HK$2.69 | 1.090 | (59%) |
| Radford Capital Investment Limited | 901 | 104 | HK$0.129 | 0.127 | (2%) |
| Unity Investments Holdings Limited | 913 | 112 | HK$0.31 | 0.093 | (70%) |
| **The Company** | **666** | **471** | **HK$0.31** | **0.126** | **(59%)** |
| | | | **HK$0.198*** | **0.126** | **(36%)** |

*(*Note: unaudited proforma consolidated net tangible assets per Share published on 26 March 2009)*

Not including the Company, of the above 14 market comparables, 9 of which are trading at a discount to net asset value. The sizes of discounts of some of these companies are, just like that of the Company, rather significant. Whilst it is not uncommon for close-end funds to trade at a discount to net assets, it should be noted that (i) the depressed market conditions arising from the global financial crisis which began late last year no doubt further enlarge such discount to net asset value; and (ii) since April 2009, global stock markets have rallied up significantly, which would suggest the possibility that the financial crisis may begin to stabilise. The Offer Price per Share is based on the subscription price of a Rights Share, the pricing of which was with reference to the then market price in early February 2009, when the effects of the financial crisis were still visibly affecting market sentiments (e.g. Hang Seng Index closed at 13,554 on 13 February 2009, the trading date immediately preceding the Rights Issue announcement). Thus the Offer Price per Share is based on the depressed market prices per Share in February 2009 which is in our view, inadequate when viewed against the underlying net assets value of the Company and the improving market sentiments (e.g. Hang Seng Index closed at 17,389 on the Latest Practicable Date, a 28% increase since 13 February 2009).

Finally, it is also important to note that as set out in the Rights Issue prospectus dated 26 March 2009, the unaudited pro forma consolidated net tangible assets per Share, after the Rights Issue adjustment based on net asset value of HK$0.29 per Share of the Company as at 28 February 2009, is HK$0.198 (assume 1,869,172,517 Rights Shares to be issued and no exercise of 2011 Warrants). The Share Offer price of HK$0.10 therefore represents a discount of approximately 49.5%, when viewed against this HK$0.198 pro forma consolidated net tangible assets per Share.

Based on the above analysis, we take the view that the Share Offer price of HK$0.10 per Offer Share, which represents a considerable discount to the latest published unaudited consolidated net assets value or pro forma net tangible assets per Share, is unfair and unreasonable.

**7. The Offeror, its intentions and future prospects of the Group**

As set out in the "Letter From YMIM", the Offeror intends that the Group will continue its existing principal activities after the close of the Offers. Furthermore, it has no intention to introduce significant change to the existing management and directorship of the Company (including the continued employment of all employees and any redeployment of the fixed assets of the Group).

We further noted that in the Rights Issue circular dated 6 March 2009, as part of the reasons for the Rights Issue, the Board stated that whilst the financial turmoil in 2008 has significantly diminished the Group's net asset value yet at the same time, presents unique investment opportunities for the Company. The Rights Issue was to replenish the capital of the Company in anticipation of investment opportunities offering attractive valuation in both the local bond and stock markets and such other opportunities as they arise.

**8. Dividends**

Citing the reason to preserve cash for investment activities, the Company (i) did not declare any dividends for the year ended 31 December 2008; and (ii) the 2009 Warrants were proposed on a one for five bonus 2009 Warrants basis. No dividends were also declared for each of the two years ended 31 December 2006 and 2007 respectively.

**9. Maintaining the listing status of the Company**

The Offeror intends to maintain the listing of the Shares and Warrants, and does not intend to exercise any rights to which may be available to them to acquire compulsorily any outstanding issued Shares and Warrants not tendered under the Offers after the Closing Date.

**B. THE WARRANT OFFERS**

Pursuant to the terms of the Offers, YMIM is also making for and on behalf of the Offeror in compliance with the Takeovers Code the Warrant Offers, on the terms as follows:

For each 2011 Warrant with an exercise price of HK$0.10 . . . . . . . . . . . . HK$0.0001 in cash
For each 2009 Warrant with an exercise price of HK$0.33 . . . . . . . . . . . HK$0.00001 in cash

Independent Warrantholders should note that warrants may have an intrinsic value and a time value. Intrinsic value is the amount by which the market price of the underlying shares exceeds the exercise price of the warrant. Thus in this case, the intrinsic value for the 2009 Warrants is nil. The market closing prices for the 2009 Warrants after June 2008 as set out in Tables G below (where market prices of the underlying Shares were less than the exercise price of the 2009 Warrants) are therefore, time value only. Time value shrinks as the expiry date of a warrant approaches (less time for the underlying shares to appreciate) and at expiry, such time value for an unexercised warrants will also become worthless. The 2009 Warrants are expiring on 28 May 2009 (the last trading date being 22 May 2009) whereas the 2011 Warrants are expiring on 22 April 2011.

The numbers of the 2009 Offer Warrants and 2011 Offer Warrants are 272,959,509 and 65,606,929 respectively as at the Latest Practicable Date. Thus the full values of the 2009 Offer Warrants and 2011 Offer Warrants are HK$2,729.60 and HK$6,560.69 respectively. The 2009 Warrants, whilst not "in the money" (i.e. the current Share price is below its exercise price of HK$0.33), are theoretically exercisable and if all 2009 Offer Warrants and all 2011 Offer Warrants (which are "in the money") were to be exercised in full, 338,566,438 new Offer Shares would be issued and could be tendered under the Share Offer. In light of aforesaid "out of money" feature, we do not advise the exercise of any of the 2009 Offer Warrants for the purpose of accepting the Share Offer.

The following table sets out the total monthly volume of the 2009 Warrants.

Table G: Monthly volume of 2009 Warrants (Stock code: 150)

| **Month/Period** | **Weighted average daily closing price** | **Total trading volume** | **Percentage of total trading volume to public float of 2009 Warrants** |
|---|---|---|---|
| | | | *(Note)* |
| | *HK$* | *(Warrants)* | *(%)* |
| **2008** | | | |
| June | 0.051 | 7,092,451 | 2.60 |
| July | 0.030 | 3,092,400 | 1.14 |
| August | 0.029 | 980,800 | 0.36 |
| September | 0.016 | 6,382,000 | 2.34 |
| October | 0 | 0 | 0 |
| November | 0 | 0 | 0 |
| December | 0.010 | 9,670,240 | 3.55 |
| **2009** | | | |
| January | 0.010 | 1,020,000 | 0.37 |
| February | 0.010 | 100,000 | 0.04 |
| March | 0.010 | 120,000 | 0.04 |
| April | 0 | 0 | 0 |
| May (up to the Latest Practicable Date) | 0 | 0 | 0 |

*Note:* Public float 2009 Warrants totaled 272,449,509 warrants (excluding those held by Messrs. Lee Yip Wah, Peter and Albert Ho, directors of the Company)

The following table sets out the short history of the daily volumes and prices of the 2011 Warrants, the trading of which on the Stock Exchange began on 27 April 2009.

Table H: Daily volume of 2011 Warrants (Stock code: 534)

| **Date** | **Daily closing price** | **Trading Volume** | **Percentage of total trading volume to public float of 2011 Warrants** |
|---|---|---|---|
| | | | *(Note)* |
| | *(HK$)* | *(Warrants)* | *(%)* |
| 27 April 2009 | 0.040 | 595,321 | 0.91 |
| 28 April 2009 | 0.038 | 888,077 | 1.36 |
| 29 April 2009 | 0.038 | 100,000 | 0.15 |
| 30 April 2009 | 0.036 | 240,400 | 0.37 |
| 4 May 2009 | 0.036 | 0 | 0 |
| 5 May 2009 | 0.050 | 403,347 | 0.62 |
| 6 May 2009 | 0.060 | 580,887 | 0.89 |
| 7 May 2009 | 0.060 | 0 | 0 |
| 8 May 2009 (Latest Practicable Date) | 0.060 | 0 | 0 |

*Note:* Public float 2011 Warrants totaled 65,080,929 warrants (excluding those held by Messrs. Lee Yip Wah, Peter and Albert Ho, directors of the Company)

As sets out in Table G above, prior to February 2009, the 2009 Warrants, whilst thinly traded, did have a small market exit route for those Independent Warrantholders who wanted to reduce their holdings in the 2009 Warrants. The trading volume of the 2009 Warrants has since substantially declined to either very small or nil (i.e. for each of February and March 2009, trading volume was recorded on one trading day only and since 9 March 2009 up to the Latest Practicable Date, no trading volume was recorded) thus making it very difficult for any meaningful disposal of the 2009 Offer Warrants on the Stock Exchange. 2011 Warrants, the trading of which only commenced on 27 April 2009, also have fluctuation in trading volume since 29 April 2009, details of which are set out in Table H above. The Warrant Offers prices are nominal in value taking into consideration the see-through value of the 2009 Warrants and 2011 Warrants. The 2009 Warrant Offer, we believe, has also taken into consideration the limited "time value" of the expiring 2009 Warrants, with its last day of trading being 22 May 2009.

Based on our analysis of the Share Offer price of HK$0.10, which we consider to be not fair and reasonable, and the fact that the Warrants were traded (in the case of 2011 Warrants, still are trading) at prices substantially above the Warrant Offers prices, we consider the HK$0.00001 per 2009 Offer Warrant and HK$0.0001 per 2011 Offer Warrant to be not fair and reasonable. Independent Warrantholders should note that CCASS charges a corporate action service fee of HK$0.8 per board lot of securities to be tendered and the aggregate 2009 Warrant Offer price, which has a board lot of 20,000, is HK$0.2 per board lot.

## C. RECOMMENDATIONS

### 1. Share Offer

Having considered the principal factors and reasons set out above, in particular:

- the Share Offer price of HK$0.10 per Offer Share is inadequate as it represents a large discount to each of the Group's latest published net assets value and unaudited pro forma consolidated net tangible assets per Share;

- the assets of the Company are mainly marketable securities which have been "marked to market", based on ascertainable market prices. The "break up" value of the Company is therefore, expected to reasonably reflect its underlying net assets value per Share published from time to time, which is at a substantial premium to the Share Offer price;

- the Share Offer price is the same as the subscription price for a Rights Share, the pricing of which was based on depressed market prices per Share in early February 2009, when the effects of the financial crisis were still affecting market sentiments. The financial turmoil in 2008 had significantly diminished the Group's net asset value and the Rights Issue was to replenish the capital of the Company. The considerable recovery in equity prices globally since the beginning of April 2009 appears to support the argument that the financial crisis may begin to stabilise and if this turns out to be correct, would potentially mean more upside opportunity for Independent Shareholders holding their Shares; and

- the Company's balance sheet has no bank borrowings and with the completion of the Rights Issue, it is now better positioned to capitalise on any increase in investment opportunities,

we do not consider that the terms of the Share Offer to be fair and reasonable so far as the Independent Shareholders are concerned. We therefore, advise the Independent Board Committee to recommend the Independent Shareholders not to accept the Share Offer.

Our advice on rejecting the Share Offer notwithstanding, Independent Shareholders who wish to take this opportunity to realise part or all of their Offer Shares due to the uncertainty arising from the aforesaid global financial crisis, the illiquidity of the Shares trading volume or the non performing Share price in the past (which are likely to continue after the Share Offer) should first consider selling their Shares in the open market rather than accepting the Share Offer, if the net proceeds from the sale of their Offer Shares are more than the net amount to be received under the Share Offer. If due to market conditions, these Independent Shareholders are unable to sell their Offer Shares, they can always tender their Offer Shares in acceptance of the Share Offer prior to the closing of the Share Offer. These Independent Shareholders should therefore, read carefully the procedures for accepting the Share Offer as detailed in the Composite Offer Document and the accompanying form of acceptance.

## 2. The Warrant Offers

Based on our analyses set out above, we consider that the Warrant Offers prices, which are nominal in value (and bear no resemblance to the historical market prices of the 2009 Warrants and 2011 Warrants respectively), are not fair and reasonable so far as Independent Warrantholders are concerned. However, we also noted the limited “life span” of the 2009 Warrants and the window of opportunity to dispose of all the 2009 Offer Warrants under the 2009 Warrant Offer. We therefore, advise the Independent Board Committee to recommend the Independent Warrantholders (i) not to accept the 2011 Warrant Offer; and (ii) in so far as 2009 Warrant Offer is concerned, to take the actions set out below.

Independent Warrantholders holding 2009 Warrants should take note that the 2009 Warrants are expiring on 28 May 2009 (the last trading date being 22 May 2009) and thus, its market price will be vulnerable to the rapidly approaching expiration. 2009 Warrantholders should therefore, if possible, try to promptly sell all their 2009 Offer Warrants in the open market rather than accepting the 2009 Warrant Offer, if the net proceeds from such sale are more than the net amount to be received under the 2009 Warrants Offer. If due to market conditions (e.g. illiquidity of the trading volume), these Independent Warrantholders are unable to sell their 2009 Offer Warrants, subject to the cash payment under the 2009 Warrant Offer exceeding the charges related to tendering of their 2009 Offer Warrants, they should tender all their 2009 Offer Warrants in acceptance of the 2009 Warrant Offer in order to avoid their holdings in the 2009 Offer Warrants becoming worthless. Independent Shareholders who intend to accept the 2009 Warrant Offer and whose 2009 Offer Warrants are deposited with CCASS should check with their respective brokers to make sure that the brokerage handling charges and CCASS charges do not exceed the cash to be received by tendering their 2009 Offer Warrants.

In view of the fact that the expiry of the 2009 Offer Warrants is on 28 May 2009 and the closing date of the Offers is on 29 May 2009, we have been advised by YMIM that any 2009 Offer Warrants received after 28 May 2009 and prior to the closing of the Offers on 29 May 2009 will be accepted by the Offeror.

Our advice on rejecting the 2011 Warrant Offer notwithstanding, Independent Warrantholders who wish to take this opportunity to realise part or all of their 2011 Offer Warrants due to the uncertainty arising from the aforesaid global financial crisis, the possible increasing illiquidity of the trading volume of the 2011 Warrants (which are likely to occur after the 2011 Warrant Offer) should first consider selling their 2011 Offer Warrants in the open market rather than accepting the 2011 Warrant Offer. If due to market conditions, these Independent Warrantholders are unable to sell their 2011 Offer Warrants prior to the closing of the Offers, they can always try to sell their 2011 Offer Warrants after the closing date of the Offers, in view of the long remaining life span of the 2011 Warrants.

If the Share price increases to levels above the Share Offer price of HK$0.10, Independent Warrantholders who wish to sell part or all of their 2011 Offer Warrants may also consider exercising their 2011 Offer Warrants at the exercise price of HK$0.10 per Share and sell the converted Shares in the open market, either during or after the closing of the Offers. Independent Shareholders should note that on the basis the closing price per 2011 Offer Warrant was HK$0.06 as at the Latest Practicable Date, and with its exercise price of HK$0.10, the "all in" costs (excluding all transaction fees and brokerage charges) would amount to HK$0.16 per converted Share after the exercise of the 2011 Offer Warrants. Thus it would only be commercial if the then market price per converted Share is above such amount.

The Independent Warrantholders who intend to accept the Warrant Offers should therefore, read carefully the procedures for accepting the Warrant Offers as detailed in the Composite Offer Document and the accompanying form of acceptance.

Yours faithfully,
for and on behalf of
**Centurion Corporate Finance Limited**
**Baldwin LEE**
*Managing Director*

## 1. FURTHER PROCEDURES FOR ACCEPTANCE OF THE OFFERS

To accept the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer, you should complete and sign the accompanying **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Share Offer, 2009 Warrant Offer and 2011 Warrant Offer respectively.

(a) If the Title Document(s) in respect of your Shares and/or Warrants is/are in your name, and you wish to accept the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer, you must send the duly completed **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance together with the relevant Title Document(s) by post or by hand to the Registrar, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, marked "**Yu Ming Share Offer**" and/or "**Yu Ming Warrant Offers**" (as the case may be) on the envelope.

(b) If the Title Document(s) in respect of your Shares and/or Warrants is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer in respect of your Shares and/or Warrants, you must either:

(i) lodge your Title Document(s) with the nominee company, or other nominee, with instructions authorising it to accept the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer on your behalf and requesting it to deliver the duly completed **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance together with the relevant Title Document(s) to the Registrar; or

(ii) arrange for the Shares and/or Warrants to be registered in your name by the Company through the Registrar, and send the duly completed **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance together with the relevant Title Document(s) to the Registrar; or

(iii) if your Shares and/or Warrants have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer on your behalf on or before the deadline set by HKSCC Nominees Limited (which is normally one business day before the latest date on which acceptances of the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer must be received by the Registrar). In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

(iv) if your Shares and/or Warrants have been lodged with your Investor Participant Account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited (which is normally one business day before the latest date on which acceptances of the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer must be received by the Registrar).

(c) If the Title Document(s) in respect of your Shares and/or Warrants is/are not readily available and/or is/are lost and you wish to accept the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer in respect of your Shares and/or Warrants, the **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Title Document(s) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Title Document(s) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s) and/or Warrant certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

(d) If you have lodged transfer(s) of any of your Shares and/or Warrants for registration in your name and have not yet received your Share certificate(s) and/or Warrant certificate(s), and you wish to accept the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer in respect of your Shares and/or Warrants, you should nevertheless complete the **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to YMIM and/or the Offeror or their respective agent(s) to collect from the Registrar on your behalf the relevant Share certificate(s) and/or Warrant certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance.

(e) Acceptance of the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer will be treated as valid only if the completed **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance is/are received by the Registrar no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive, and is:

(i) accompanied by the relevant Title Document(s) and, if the Share certificate(s) and/or Warrant certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares and/or Warrants; or

(ii) from a registered Shareholder and/or Warrantholder or his/her/its personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Shares and/or Warrants which are not taken into account under another sub-paragraph of this paragraph (e)); or

(iii) certified by the Registrar or the Stock Exchange.

(f) If the **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance is/are executed by a person other than the registered Shareholder and/or Warrantholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

(g) Seller's ad valorem stamp duty for transfer of Shares and/or Warrants registered on the Registrar arising in connection with acceptance of the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer will be payable by the relevant Accepting Shareholder, Accepting 2009 Warrantholder and/or Accepting 2011 Warrantholder at the rate of HK$1.00 for every HK$1,000 (or part thereof) of the consideration payable by the Offeror in respect of the relevant acceptance, and will be deducted from the cash amount due to such Accepting Shareholders and Accepting Warrantholders. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the Accepting Shareholders and/or Accepting Warrantholders and will pay the buyer's ad valorem stamp duty in respect of the Shares and/or Warrants accepted under the Offers.

(h) No acknowledgement of receipt of any **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance or Title Document(s) will be given.

## 2. SETTLEMENT OF THE OFFERS

Provided that a valid **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance and the relevant Title Document(s) are complete and in good order in all respects and have been received by the Registrar no later than the latest time for acceptance (or such later time and/or date as the Offeror may announce with the consent of the Executive), a cheque for the amount due to each Accepting Shareholder, Accepting 2009 Warrantholder and/or Accepting 2011 Warrantholder less seller's ad valorem stamp duty in respect of the Shares and/or Warrants tendered by him/her/it under the Share Offer, 2009 Warrant Offer and/or 2011 Warrant Offer will be despatched to the Shareholder, 2009 Warrantholder and/or 2011 Warrantholder by ordinary post at his/her/its own risk as soon as possible but in any event within 10 days of the date of receipt of the completed **WHITE**, **PINK** and/or **BLUE** form(s) of acceptance and all the relevant documents by the Registrar.

## 3. ACCEPTANCE PERIOD AND REVISIONS

(a) The latest time and date for acceptance of the Offers will be at 4:00 p.m. on 1st June, 2009 unless the Offeror extends the Offers in accordance with the Takeovers Code.

(b) The Offeror will issue an announcement on the websites of the Stock Exchange and of the Company by 7:00 p.m. on 1st June, 2009 stating whether the Offers have expired or have been revised or extended.

(c) In the event that the Offeror decides to extend the Offers, at least 14 days' notice in writing will be given, before the latest time and date for acceptance of the Offers, to those Independent Shareholders and Independent Warrantholders who have not accepted the Offers.

(d) If the Offeror revises the terms of the Offers, all Independent Shareholders and Independent Warrantholders whether or not they have already accepted the Offers will be entitled to the revised terms.

(e) If the Closing Date is extended, any reference in this composite offer document and in the form(s) of acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offers so extended.

**4. ANNOUNCEMENTS**

(a) By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offers. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Offers have been revised or extended or have expired.

Such announcement must state the following:

(i) the total number of Shares and Warrants for which acceptances of the Share Offer and/or Warrant Offers have been received;

(ii) the total number of Shares and Warrants held, controlled or directed by the Offeror or parties acting in concert with it before the offer period;

(iii) the total number of Shares and Warrants acquired or agreed to be acquired by the Offeror or parties acting in concert with it during the offer period; and

(iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or parties acting in concert with it has borrowed or lent.

The announcement must specify the percentages of the relevant class of share capital, and the percentages of voting rights of the Company, represented by these numbers.

**5. RIGHT OF WITHDRAWAL**

(a) Acceptance of the Offers tendered by the Independent Shareholders and Independent Warrantholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in subparagraph (b) below.

(b) If the Offeror is unable to comply with the requirements set out in paragraph 4 of this Appendix headed "Announcements" above, the Executive may require pursuant to Rule 19.2 of the Takeovers Code that the Independent Shareholders and Independent Warrantholders who have tendered acceptance to the Offers be granted a right of withdrawal on terms that are acceptable to the Executive until the requirement of Rule 19 of the Takeovers Code can be met.

**6. OVERSEAS SHAREHOLDERS AND OVERSEAS WARRANTHOLDERS**

The laws of the relevant jurisdictions may affect the making of the Offers to certain persons not residing in Hong Kong. Overseas Shareholders and Overseas Warrantholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of any person outside Hong Kong wishing to accept the Offers to satisfy himself as to the full observance of the laws of the relevant territory in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and payment of any transfer or other taxes due in respect of such jurisdiction.

**7. GENERAL**

(a) All communications, notices, forms of acceptance, certificates, transfer receipts and other documents of title or of indemnity or of any other nature to be delivered by or sent to or from the Independent Shareholders and Independent Warrantholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and neither the Offeror nor YMIM accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.

(b) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares or Warrants tendered under the Offers are sold by such person or persons free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them or subsequently becoming attached to them (for the Offer Shares, including all dividends and distributions declared, made or paid on or after the Announcement Date).

(c) Acceptance of the Offers by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares and/or Warrants in respect of which it is indicated in the forms of acceptance the aggregate number of Shares and/or Warrants held by such nominee for such beneficial owners who accept the Offers.

(d) The accidental omission to despatch this composite offer document and/or the accompanying forms of acceptance or either of them to any person to whom the Offers is made shall not invalidate the Offers in any way.

(e) The Offers and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

(f) Due execution of forms of acceptance will constitute an authority to the Offeror or its agents to complete and execute on behalf of the person accepting the Offers, and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such other person as it may direct.

(g) The Offers are made in accordance with the Takeovers Code.

(h) The English text of this composite offer document and of the accompanying forms of acceptance shall prevail over the Chinese text.

## 1. THREE-YEAR SUMMARY OF FINANCIAL INFORMATION

Set out below is a summary of the audited consolidated income statement of the Group for each of the three years ended 31st December, 2008. The auditor's reports issued by Grant Thornton in respect of the Group's audited financial statements for each of the three years ended 31st December, 2006, 2007 and 2008 did not contain any qualifications. There were no extraordinary items and exceptional items in respect of the summary of the audited consolidated income statement of the Group for each of the three years.

**FINANCIAL SUMMARY**
*FOR THE THREE YEARS ENDED 31ST DECEMBER*

| | **2008** | **2007** | **2006** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Audited)* | *(Audited)* | *(Audited)* |
| Turnover | 16,546 | 44,466 | 95,242 |
| (Loss)/profit before income tax | (376,370) | 104,097 | (124,410) |
| Income tax (expense)/credit | – | (1,210) | 195 |
| (Loss)/profit for the year | (376,370) | 164,016 | (115,596) |
| Minority Interests | – | 18,812 | 40,097 |
| Dividends | – | – | – |
| Dividends per share | – | – | – |
| (Loss)/earnings per share for the year | (20.14) HK cents | 7.96 HK cents | (9.21) HK cents |

## 2. AUDITED ACCOUNTS OF THE GROUP FOR THE YEAR ENDED 31ST DECEMBER, 2008

Set out below is the full text of the audited financial statements of the Group for the year ended 31st December, 2008 extracted from the annual report of the Company for the year ended 31st December, 2008.

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31st December, 2008*

| | *Notes* | **2008** *HK$'000* | **2007** *HK$'000* |
|---|---|---|---|
| **Continuing operations:** | | | |
| **Revenue** | *5* | 16,546 | 44,466 |
| **Other net (loss)/income** | *6* | (370,412) | 87,138 |
| **Administrative and other operating expenses** | | (22,504) | (36,709) |
| **Operating (loss)/profit** | | (376,370) | 94,895 |
| Gain on disposal of a subsidiary and a jointly controlled entity | *33.2* | – | 16,206 |
| Finance costs | *8* | – | (8,754) |
| Share of results of a jointly controlled entity | | – | 1,750 |
| **(Loss)/profit before income tax** | *9* | (376,370) | 104,097 |
| Income tax expense | *10* | – | (1,210) |
| (Loss)/profit for the year from continuing operations | | (376,370) | 102,887 |
| **Discontinued operations:** | | | |
| Net result for the year from discontinued operations | *11* | – | 61,129 |
| **(Loss)/profit for the year** | | (376,370) | 164,016 |
| Attributable to: | | | |
| – Equity holders of the Company | *12* | (376,370) | 145,204 |
| – Minority interests | | – | 18,812 |
| **(Loss)/profit for the year** | | (376,370) | 164,016 |
| **(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company (HK cents)** | *14* | | |
| **– Basic** | | | |
| For (loss)/profit for the year | | (20.14) | 7.96 |
| For (loss)/profit from continuing operations | | (20.14) | 5.13 |
| **– Diluted** | | N/A | N/A |

**CONSOLIDATED BALANCE SHEET**

*As at 31st December, 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Interests in associates | 18 | – | – |
| Available-for-sale financial assets | 19 | 75,756 | 54,703 |
| Held-to-maturity investments | 20 | 7,648 | – |
| | | 83,404 | 54,703 |
| **Current assets** | | | |
| Trade and other receivables and prepayment | 21 | 77,930 | 1,037 |
| Available-for-sale financial assets | 19 | – | 1 |
| Financial assets at fair value through profit or loss | 22 | 305,276 | 286,635 |
| Other restricted deposit paid | 23 | 20,049 | 24,014 |
| Cash and cash equivalents | 24 | 135,159 | 652,174 |
| | | 538,414 | 963,861 |
| **Current liabilities** | | | |
| Other payables and accrued expenses | 25 | 4,347 | 21,683 |
| Financial liabilities at fair value through profit or loss | 26 | 18,089 | 3,900 |
| Taxation payable | | 1,210 | 1,210 |
| | | 23,646 | 26,793 |
| **Net current assets** | | 514,768 | 937,068 |
| **Total assets less current liabilities** | | 598,172 | 991,771 |
| **Net assets** | | 598,172 | 991,771 |
| **EQUITY** | | | |
| **Equity attributable to the equity holders of the Company** | | | |
| Share capital | 27 | 186,917 | 186,917 |
| Reserves | 28 | 411,255 | 804,854 |
| **Total equity** | | 598,172 | 991,771 |
| **Net asset value per share attributable to the equity holders of the Company (HK$)** | 29 | 0.32 | 0.53 |

**BALANCE SHEET**
*As at 31st December, 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 17 | 1,400 | 1,400 |
| | | 1,400 | 1,400 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 17 | 574,610 | 781,038 |
| Other receivables and prepayment | | 251 | – |
| Cash and cash equivalents | 24 | 76,628 | 445,914 |
| | | 651,489 | 1,226,952 |
| **Current liabilities** | | | |
| Other payables and accrued expenses | 25 | 4,347 | 21,683 |
| Amounts due to subsidiaries | 17 | 7,424 | 247,656 |
| | | 11,771 | 269,339 |
| **Net current assets** | | 639,718 | 957,613 |
| **Total assets less current liabilities** | | 641,118 | 959,013 |
| **EQUITY** | | | |
| Share capital | 27 | 186,917 | 186,917 |
| Reserves | 28 | 454,201 | 772,096 |
| **Total equity** | | 641,118 | 959,013 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31st December, 2008*

| | Equity attributable to equity holders of the Company | | | | | | | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital redemption reserve | Capital contribution reserve | Investment revaluation reserve | Retained earnings/ (accumulated losses) | Total | | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st January, 2007 | 169,117 | 311,582 | 4,032 | 367 | 36,304 | 210,929 | 732,331 | 192,386 | 924,717 |
| Fair value gain on available-for-sale financial assets | – | – | – | – | 4,905 | – | 4,905 | – | 4,905 |
| Realisation of revaluation surplus of available-for-sale financial assets on disposal | – | – | – | – | (28,756) | – | (28,756) | – | (28,756) |
| Net income recognised directly in equity | – | – | – | – | (23,851) | – | (23,851) | – | (23,851) |
| Profit for the year | – | – | – | – | – | 145,204 | 145,204 | 18,812 | 164,016 |
| Total recognised income and expense for the year | – | – | – | – | (23,851) | 145,204 | 121,353 | 18,812 | 140,165 |
| Disposal of subsidiaries | – | – | – | – | – | – | – | (211,198) | (211,198) |
| Proceeds from shares issued | 33,800 | 189,280 | – | – | – | – | 223,080 | – | 223,080 |
| Shares issuance expenses | – | (8,116) | – | – | – | – | (8,116) | – | (8,116) |
| Repurchase of shares | (16,000) | – | 16,000 | – | – | (76,877) | (76,877) | – | (76,877) |
| At 31st December, 2007 | 186,917 | 492,746* | 20,032* | 367* | 12,453* | 279,256* | 991,771 | – | 991,771 |

| | Equity attributable to equity holders of the Company | | | | | | | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital redemption reserve | Capital contribution reserve | Investment revaluation reserve | Retained earnings/ (accumulated losses) | Total | | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st January, 2008 | 186,917 | 492,746 | 20,032 | 367 | 12,453 | 279,256 | 991,771 | – | 991,771 |
| Fair value loss on available-for-sale financial assets | – | – | – | – | (24,332) | – | (24,332) | – | (24,332) |
| Realisation of revaluation loss of available-for-sale financial assets on disposal | – | – | – | – | 809 | – | 809 | – | 809 |
| Impairment loss written-off to the income statement | – | – | – | – | 6,294 | – | 6,294 | – | 6,294 |
| Net income recognised directly in equity | – | – | – | – | (17,229) | – | (17,229) | – | (17,229) |
| Loss for the year | – | – | – | – | – | (376,370) | (376,370) | – | (376,370) |
| Total recognised income and expense for the year | – | – | – | – | (17,229) | (376,370) | (393,599) | – | (393,599) |
| Proceeds from shares issued[#] | – | – | – | – | – | – | – | – | – |
| At 31st December, 2008 | 186,917 | 492,746* | 20,032* | 367* | (4,776)* | (97,114)* | 598,172 | – | 598,172 |

* *The aggregate amount of these balances of HK$411,255,000 (2007: HK$804,854,000) represents the reserves in the consolidated balance sheet.*

\# *During the year, HK$53 and HK$121 were received for share capital and share premium respectively as a result of exercise of the Company's warrants.*

## CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31st December, 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities, including discontinued operations** | | | |
| (Loss)/profit before income tax | | (376,370) | 170,153 |
| Adjustments for: | | | |
| Interest income from available-for-sale financial assets | 5 | (300) | (287) |
| Interest income from held-to-maturity investments | 5 | (18) | – |
| Interest income from bank deposits | 5 | (6,525) | (12,106) |
| Interest income on accrued dividend income | 5 | – | (1,215) |
| Dividend income | 5 | (9,703) | (30,915) |
| Loss/(gain) on disposal/redemption of available-for-sale financial assets | 6 | 793 | (30,947) |
| Fair value loss on investment properties | 11 | – | 86 |
| Impairment/(reversal of impairment) of available-for-sale financial assets | 6 | 6,294 | (5,000) |
| Fair value loss/(gain) on financial assets and liabilities at fair value through profit or loss | 6 | 427,325 | (50,292) |
| Interest on bank and other borrowings | 8 | – | 43,552 |
| Gain on disposal of a subsidiary and a jointly controlled entity | 33.2 | – | (16,206) |
| Gain on disposal of a subsidiary | 33.1 | – | (36,490) |
| Share of results of a jointly controlled entity | | – | (1,750) |
| Operating profit before working capital changes | | 41,496 | 28,583 |
| (Increase)/decrease in trade and other receivables and prepayment | | (72,928) | 39,729 |
| (Decrease)/increase in other payables and accrued expenses | | (17,336) | 7,150 |
| Change in financial assets and liabilities at fair value through profit or loss | | (428,510) | (215,361) |
| Cash used in operations | | (477,278) | (139,899) |
| Interest received from available-for-sale financial assets | | – | 287 |
| Bank interest received | | 6,525 | 12,106 |
| Interest income received on accrued dividends | | – | 943 |
| Dividend received | | 9,703 | 945 |
| Interest on bank and other borrowings paid | | – | (43,552) |
| Income taxes refund | | – | 2,697 |
| Net cash used in operating activities, including discontinued operations | | (461,050) | (166,473) |

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities, including discontinued operations** | | | |
| Purchase of available-for-sale financial assets | | (8,132) | (16,381) |
| Purchase of held-to-maturity investments | | (7,630) | – |
| Purchase of convertible bonds | | (40,236) | – |
| Proceeds from disposal of available-for-sale financial assets | | 33 | 80,714 |
| Realisation of available-for-sale financial assets | *6* | – | 5,000 |
| Purchase of investment properties | | – | (7,331) |
| Proceeds from disposal of subsidiaries and a jointly controlled entity | *33.2* | – | 158,908 |
| Proceeds from disposal of a subsidiary | *33.1* | – | 368,190 |
| Decrease in pledged bank fixed deposits | | – | 10,538 |
| Net cash (used in)/generated from investing activities, including discontinued operations | | (55,965) | 599,638 |
| **Cash flows from financing activities, including discontinued operations** | | | |
| Repayment of loan from bank and other borrowings | | – | (61,993) |
| Proceeds from issuance of shares | | – | 223,080 |
| Shares issuance expenses | | – | (8,116) |
| Repurchase of shares | | – | (76,800) |
| Shares repurchase expenses | | – | (77) |
| Repayment of loans from minority interests | | – | 36 |
| Net cash generated from financing activities, including discontinued operations | | – | 76,130 |
| **Net (decrease)/increase in cash and cash equivalents** | | (517,015) | 509,295 |
| **Cash and cash equivalents at 1st January** | | 652,174 | 142,879 |
| **Cash and cash equivalents at 31st December** | | 135,159 | 652,174 |

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

### 1. GENERAL INFORMATION

Yu Ming Investments Limited (the "Company") is a limited liability company incorporated and domiciled in Hong Kong. The address of the Company's registered office is Room 1901B, 19th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong and, its principal place of business is Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company and its subsidiaries (together referred to as the "Group") include the investments in listed and unlisted financial instruments.

The financial statements on pages 31 to 147 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The financial statements for the year ended 31st December, 2008 were approved for issue by the Board of Directors of the Company (the "Board") on 27th March, 2009.

### 2. ADOPTION OF NEW OR AMENDED HKFRSs

2.1 From 1st January, 2008, the Group has adopted all the new and amended HKFRSs which are first effective on 1st January, 2008 and relevant to the Group.

The adoption of these new and amended HKFRSs did not result in significant changes in the Company's and the Group's accounting policies.

2.2 The Group has not early adopted the following HKFRSs that have been issued but are not yet effective.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKAS 32, HKAS 39 & HKFRS 7 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKAS 39 (Amendment) | Eligible Hedged Items[2] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate[1] |
| HKFRS 1 (Revised) | First-time Adoption of HKFRSs[2] |
| HKFRS 2 (Amendment) | Share-based payment – Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes[3] |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate[1] |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation[4] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[2] |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers[5] |

*Note:*

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

2 Effective for annual periods beginning on or after 1st July, 2009

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

4 Effective for annual periods beginning on or after 1st October, 2008

5 Effective for transfers received on or after 1st July, 2009

Saved as disclosed above, the HKICPA has made minor amendments to a number of HKFRSs in October 2008 as a result of the annual improvements project of the HKICPA. Unless otherwise specified, these minor amendments to HKFRSs in an annual improvements project are effective for annual periods beginning on or after 1st January, 2009.

Among these new standards and interpretations, HKAS 1 (Revised) is expected to materially change the presentation of the Group's financial statements. The amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

In addition, HKFRS 8 may result in new or amended disclosures. Management is in the process of identifying reportable operating segments as defined in HKFRS 8.

The Directors of the Company (the "Directors") anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for financial instruments classified as available-for-sale and at fair value through profit or loss which are stated at fair value. The measurement bases are described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are described in Note 4.

### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December, each year.

### 3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets, liabilities and contingent liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

**3.4 Associates**

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investments in a joint venture.

In consolidated financial statements, investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interests in the associate are carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see Note 3.9) of the associate and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

In the Company's balance sheet, investments in associates are stated at cost less any impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

**3.5 Foreign currency translation**

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rate at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the exchange rates ruling at the transaction dates, or at average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the currency translation reserve in equity.

**3.6 Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, revenue is recognised as follows:

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend is recognised when the right to receive payment is established.

Income from provision of arrangement services is recognised when services are rendered.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

**3.7 Borrowing costs**

All borrowing costs are expensed as incurred.

**3.8 Investment property**

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property. Any changes between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Gains or losses arising from either changes in the fair value or the sale of an investment property is included in the profit or loss for the period in which they arise.

**3.9 Impairment of non-financial assets**

Interests in subsidiaries and associates are subject to impairment testing.

All non-financial assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment losses recognised for cash-generating units, are charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

**3.10 Financial assets**

The Group's accounting policies for financial assets other than investments in subsidiaries and associates are set out below.

Financial assets other than hedging instruments are classified into the following categories:

– held-to-maturity investments;

– financial assets at fair value through profit or loss;

– loan and receivables; and

– available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial assets.

*(i) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

*(ii) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-making. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

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

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in Note 3.6 to these financial statements.

*(iii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

*(iv) Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group has designated its debt elements of listed convertible bonds as available-for-sale financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recycled in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

**Impairment of financial assets**

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the Group and, natural or local economic conditions that correlate with defaults on the assets in the Group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

*(a) Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

*(b) Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

*(c) Financial assets carried at cost*

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

Financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment losses recognised in an interim period in respect of available for sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period.

**3.11 Accounting for income taxes**

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the tax periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

**3.12 Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, 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, and are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**3.13 Share capital**

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from equity (net of any related income tax benefits) to the extent they are incremental costs directly attributable to the equity transaction.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

**3.14 Leases**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see Note 3.8); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

*(ii) Operating lease charges as the lessee*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

**3.15 Pension obligations and short term employee benefits**

Retirement benefits to employees are provided through a defined contribution plan.

*Defined contribution plan*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees and those employees who are eligible to participate in the MPF Scheme. 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.

*Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

**3.16 Financial liabilities**

The Group's financial liabilities include other payables, accrued expenses and financial liabilities at fair value through profit or loss.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

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

Where 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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including derivatives which have been separated from their host contracts are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

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

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or

– the liabilities are part of a group of financial liabilities which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or

– the financial liability contains an embedded derivative that would need to be separately recorded.

*Other financial liabilities*

Other financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

**3.17 Financial guarantees issued**

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

**3.18 Non-current assets (disposal groups) held for sale and discontinued operations**

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Assets (and disposal groups), other than financial assets, classified as held for sale are measured at the lower of the assets' (disposed groups') last revalued amount and fair value less costs to sell.

A discontinued operation is a component of the entity that either has been disposed of, or is classified as held for sale, and:

– represents a separate major line of business or geographical area of operations;

– is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

– is a subsidiary acquired exclusively with a view to resale.

The results from discontinued operations, including prior year components of profit or loss, are presented in a single amount, on the face of the income statement, which comprises:

– the post-tax result of the discontinued operations; and

– the post-tax gain or loss resulting from the measurement and disposal of assets constituting the discontinued operation.

**3.19 Related parties**

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

(i) directly, or indirectly through one or more intermediaries, the party:

  – controls, is controlled by, or is under common control with, the Group;

  – has an interest in the Group that gives it significant influence over the Group;

  – has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint-controlled entity;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

**3.20 Segment reporting**

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Estimate fair value of investment properties*

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

*Impairment of amounts due from subsidiaries*

The Company's management determine the need to make allowance for impairment of amounts due from subsidiaries. This estimate is based on the subsidiaries' net asset values and operating results. Management reassess the allowance at the balance sheet date.

*Impairment of available-for-sale financial assets*

For available-for-sale financial assets, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the historical data on market volatility as well as the price of the specific investment are taken into account. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the issuer/investee.

*Deferred taxes*

Significant judgement is required in determining the amount of deferred taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the deferred taxes in the period in which such determination is made.

*Fair value of financial assets and liabilities*

The best evidence of fair value is the published price quotations in an active market. In the absence of such information, the fair value is determined by an independent professional valuer. Such valuation is subject to limitations of the valuation models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including share prices, deposit rates, spot rates, risk-free rates, volatility and the relevant parameters of the valuation model be changed, there would be material changes in the fair value of certain financial instruments without quoted prices.

*Determination of active market*

HKAS 39 defines that an active market as one in which quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The management has to assess whether the market for the financial instruments is active or not in order to determine the fair value of the financial instruments.

**4.2 Critical judgements in applying the entity's accounting policies**

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statement:

*Classification of held-to-maturity investment*

The Group follows the HKAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances defined in HKAS 39, it will be required to reclassify the whole class as available-for-sale financial assets. The investments would therefore be measured at fair value not amortised cost.

*Unlisted equity instruments*

HKAS 39 precludes the Group from measuring equity instruments at fair value, if the fair value of investment in equity instruments that do not have a quoted market price in an active market is not reliably measureable. In making this judgement, the Group considers the following information:

– the variability in the range of reasonable fair value estimates is significant for that instrument; or

– the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

*Recognition of revenue/other income*

Revenue/other income is recognised when the Group's management determined that it is probable that the economic benefits will flow to the Group and revenue/ other income can be measured reliably. This recognition requires significant judgment. In assessing whether the outcome of a transaction can be measured reliably, the Group's management has considered and satisfied with the following conditions:

– the amount of revenue/other income can be measure reliably; and

– it is probable that the economic benefits associated with the transaction will flow to the Group, e.g. the probability to receive the consideration.

**5. REVENUE**

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Dividend income | | | | | | |
| – listed investments | 9,703 | 369 | – | – | 9,703 | 369 |
| – unlisted investments | – | 30,546 | – | – | – | 30,546 |
| Interest income from bank deposits | 6,525 | 12,020 | – | 86 | 6,525 | 12,106 |
| Interest income from available-for-sale financial assets | 300 | 287 | – | – | 300 | 287 |
| Interest income from held-to-maturity investments | 18 | – | – | – | 18 | – |
| Interest income from financial assets at fair value through profit or loss | – | 29 | – | – | – | 29 |
| Interest income on accrued dividend income | – | 1,215 | – | – | – | 1,215 |
| Rental Income | – | – | – | 80,285 | – | 80,285 |
| | 16,546 | 44,466 | – | 80,371 | 16,546 | 124,837 |

## 6. OTHER NET (LOSS)/INCOME

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Receipts on interests in Grand China Shares *(Note)* | 60,000 | – | – | – | 60,000 | – |
| Arrangement fee income | 4,418 | – | – | – | 4,418 | – |
| Sundry income | 236 | 497 | – | 3,924 | 236 | 4,421 |
| Fair value (loss)/gain on financial assets and liabilities at fair value through profit or loss | (427,325) | 50,292 | – | – | (427,325) | 50,292 |
| (Impairment)/reversal of impairment of available-for-sale financial assets | (6,294) | 5,000 | – | – | (6,294) | 5,000 |
| (Loss)/gain on disposal/redemption of available-for-sale financial assets | (793) | 30,947 | – | – | (793) | 30,947 |
| Exchange (loss)/gain | (654) | 402 | – | – | (654) | 402 |
| | (370,412) | 87,138 | – | 3,924 | (370,412) | 91,062 |

*Note:*

As detailed in the Group's annual financial statements for each of the years ended 31st December, 2006 and 2007, the Group entered into an agreement with Grand China Air Company Limited ("Grand China") (the "Grand China Agreement") in 2006 and pursuant to which, among other things, the Group agreed to dispose of the 34.2% equity interest in CR Airways Limited (now known as Hong Kong Airlines Limited) (the "CR Airways") held by the Group at the consideration of HK$190 million in return for the 97,850,000 shares of Grand China of RMB1 each at RMB2 each (the "Grand China Shares").

In connection with the execution of the Grand China Agreement, the Group agreed to (i) convert a partial principal amount of approximately HK$62,182,000 of the CR Airways' Class A convertible debentures into 62,181,818 ordinary shares of HK$1 each of CR Airways (the "Converted Shares"), which represented 34.2% of the equity holdings in CR Airways, and to dispose of the Converted Shares to Grand China in return for 97,850,000 shares of RMB1 each of Grand China; (ii) waive its remaining investments in CR Airways' Class A, Class C and Class D convertible debentures in the aggregate amount of approximately HK$111,152,000 (the "Remaining Debentures"); (iii) waive all its rights in relation to the entire principal amount and accrued interest of promissory note of approximately HK$16,667,000 (the "Promissory Note") due from Mr Yip Kwong ("Mr Yip"), shareholder of CR Airways; and (iv) waive the option granted by a company wholly owned by Mr Yip to purchase its interests in CR Airways (the "Option Shares").

In June 2006, the Group completed the transfer of the Converted Shares to Grand China and waived the Remaining Debentures, Promissory Note and Option Shares (the transferred Converted Shares and waived assets collectively referred to as the "CR Airways Financial Assets"). However, in the same year, the Group was informed by Grand China that Grand China encountered difficulty in registration of the Grand China Shares. The Group also experienced difficulties in negotiating with Grand China.

In view of the title uncertainty and the lack of cooperation from Grand China, the Group did not recognise the Grand China Shares and made a decision to derecognise the CR Airways Financial Assets during the year ended 31st December, 2006. As a result of the derecognition of the CR Airways Financial Assets and the failure to recognise the Grand China Shares, the carrying value of the CR Airways Financial Assets in the aggregate amount of HK$190,190,000 was charged to the income statement for the year ended 31st December, 2006.

On 15th April, 2008, a third party independent of the Group (the "Buyer") entered into an agreement with a subsidiary of the Group, according to which the Buyer agreed to pay for the Group's interests in the Grand China Shares under the Grand China Agreement at a total consideration of HK$110 million which was originally repayable in full during the year. The Group only received HK$60 million non-refundable amount in cash from the Buyer during the year and that the amount is recognised as income in the consolidated income statement for the year ended 31st December, 2008. The remaining balance of HK$50 million has been re-scheduled to repay on 16th April, 2009 and will be then recognised as income.

## 7. SEGMENT INFORMATION

Segment information is presented by way of the Group's business segments.

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

No geographical analysis is presented as the Group's revenue, operating results and assets in geographical segments other than Hong Kong are less than 10% of the aggregate amount of all segments.

| | **Continuing operations Financial instruments investments** | | **Discontinued operations Property investment** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 16,546 | 44,466 | – | 80,371 | 16,546 | 124,837 |
| Segment result | (376,370) | 94,895 | – | 64,364 | (376,370) | 159,259 |
| Gain on disposal of a subsidiary and a jointly controlled entity | – | 16,206 | – | 36,490 | – | 52,696 |
| Finance costs | – | (8,754) | – | (34,798) | – | (43,552) |
| Share of results of a jointly controlled entity | – | 1,750 | – | – | – | 1,750 |
| (Loss)/profit before income tax | (376,370) | 104,097 | – | 66,056 | (376,370) | 170,153 |
| Income tax expense | – | (1,210) | – | (4,927) | – | (6,137) |
| (Loss)/profit for the year | (376,370) | 102,887 | – | 61,129 | (376,370) | 164,016 |

| | Continuing operations Financial instruments investments | | Discontinued operations Property investment | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 621,818 | 1,018,564 | – | – | 621,818 | 1,018,564 |
| Total assets | 621,818 | 1,018,564 | – | – | 621,818 | 1,018,564 |
| Segment liabilities | 22,436 | 25,583 | – | – | 22,436 | 25,583 |
| Unallocated | 1,210 | 1,210 | – | – | 1,210 | 1,210 |
| Total liabilities | 23,646 | 26,793 | – | – | 23,646 | 26,793 |
| Other information | | | | | | |
| Capital expenditure | – | – | – | 7,331 | – | 7,331 |
| (Impairment)/reversal of impairment of available-for-sale financial assets | (6,294) | 5,000 | – | – | (6,294) | 5,000 |
| Fair value (loss)/gain on financial assets and liabilities at fair value through profit or loss | (427,325) | 50,292 | – | – | (427,325) | 50,292 |

## 8. FINANCE COSTS

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Interest on bank borrowings wholly repayable within five years | – | 8,095 | – | 34,798 | – | 42,893 |
| Interest on other borrowings | – | 659 | – | – | – | 659 |
| | – | 8,754 | – | 34,798 | – | 43,552 |

## 9. (LOSS)/PROFIT BEFORE INCOME TAX

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| (Loss)/profit before income tax is arrived at after charging/(crediting): | | | | | | |
| Auditors' remuneration | | | | | | |
| – charge for the year | 345 | 350 | – | 59 | 345 | 409 |
| – under-provision for prior year | – | 50 | – | 1 | – | 51 |
| Employee benefit expense (including Directors' remuneration *(Note 16)*) *(Note 15)* | 3,116 | 3,580 | – | 770 | 3,116 | 4,350 |
| Management fee *(Note 32)* | 11,640 | 13,343 | – | – | 11,640 | 13,343 |
| Performance fee *(Note 32)* | – | 12,208 | – | – | – | 12,208 |
| Outgoings in respect of investment properties | – | – | – | 7,973 | – | 7,973 |
| Rental income from investment properties less direct outgoings of Nil (2007: HK$7,973,000) | – | – | – | (72,312) | – | (72,312) |

## 10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the year.

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Current tax | – | 1,210 | – | 3,516 | – | 4,726 |
| Deferred tax *(Note 30)* | – | – | – | 1,411 | – | 1,411 |
| Total income tax expense | – | 1,210 | – | 4,927 | – | 6,137 |

Reconciliation between income tax expense and (loss)/profit before income tax at applicable tax rates is as follows:

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| (Loss)/profit before income tax | (376,370) | 104,097 | – | 66,056 | (376,370) | 170,153 |
| Tax calculated at the applicable rate of 16.5% (2007: 17.5%) | (62,101) | 18,217 | – | 11,560 | (62,101) | 29,777 |
| Tax effect of non-deductible expenses | 19,573 | 2,940 | – | 207 | 19,573 | 3,147 |
| Tax effect of non-taxable revenue | (18,534) | (19,961) | – | (6,812) | (18,534) | (26,773) |
| Tax effect of unused tax losses not recognised | 61,062 | 14 | – | – | 61,062 | 14 |
| Utilisation of previously unrecognised tax losses | – | – | – | (28) | – | (28) |
| Income tax expense | – | 1,210 | – | 4,927 | – | 6,137 |

## 11. DISCONTINUED OPERATIONS

On 21st June, 2007, the Board resolved to dispose of a subsidiary, Honnex Development Limited ("Honnex"), which the Group held 61.22% equity interests. It initially acquired the shares of Honnex in July 1997. Upon the completion of the transaction on 31st December, 2007, the Group received cash proceeds of HK$372 million.

Revenue and expenses, gains and losses relating to the discontinued operations have been eliminated from the Group's continuing results and are shown as a single line item on the face of the income statement as "net result for the year from discontinued operations". Assets and liabilities originally classified as held for sale had already been sold at the balance sheet date resulting in a gain of HK$36,490,000.

An analysis of the results and cash flows of the discontinued operations included in the consolidated income statement and the consolidated cash flows statement is as follows with comparatives re-presented:

| | | **2008** | **2007** |
|---|---|---|---|
| | *Notes* | *HK$'000* | *HK$'000* |
| Revenue | *5* | – | 80,371 |
| Other net income | *6* | – | 3,924 |
| Fair value loss on investment properties | | – | (86) |
| Expenses | | – | (54,643) |
| Profit before income tax | | – | 29,566 |
| Income tax expense | *10* | – | (4,927) |
| Profit for the year from discontinued operations | | – | 24,639 |
| Gain on disposal of assets held for sale for discontinued operations | *33.1* | – | 36,490 |
| Net result for the year from discontinued operations | *14* | – | 61,129 |
| Operating cash flows | | – | 59,319 |
| Investing cash flows | | – | (7,131) |
| Financing cash flows | | – | (51,716) |
| Total cash flows | | – | 472 |

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

Of the consolidated loss for the year attributable to equity holders of the Company of HK$376,370,000 (2007: profit of HK$145,204,000), a loss of HK$317,895,000 (2007: profit of HK$416,652,000) has been dealt with in the financial statements of the Company.

**13. DIVIDENDS AND BONUS WARRANTS**

The Group had not declared any dividends during the years ended 31st December, 2008 and 2007.

During the year, the Board has approved an issue of bonus warrants ("Bonus Warrant Issue") on the basis of one warrant for every five shares held by the shareholders whose names appear on the Register of Members on 23rd May, 2008 at a subscription price of HK$0.33 per share with one year term from its issuance. Details of Bonus Warrant Issue is included in Note 27.

**14. (LOSS)/EARNINGS PER SHARE**

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of the Company of HK$376,370,000 (2007: earnings of HK$145,204,000) and on the weighted average of 1,869,172,265 (2007: 1,825,308,975) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31st December, 2008 was not presented as the impact of the exercise of the bonus warrant, was anti-dilutive. Diluted earnings per share for the year ended 31st December, 2007 was not presented as there were no dilutive potential ordinary shares.

The basic (loss)/earnings per share for continuing and discontinued operations is calculated as follows:

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Consolidated (loss)/profit for the year attributable to the equity holders of the Company for the purpose of basic (loss)/earnings per share | (376,370) | 145,204 |
| Net result for the year from discontinued operations *(Note 11)* | – | 61,129 |
| Less: Profit for the year attributable to minority interests from discontinued operations | – | (9,554) |
| | – | 51,575 |
| (Loss)/profit for the year attributable to the equity holders of the Company for the purpose of basic (loss)/earnings per share from continuing operations | (376,370) | 93,629 |
| | *HK cents* | *HK cents* |
| Basic (loss)/earnings per share attributable to equity holders of the Company for the continuing and discontinued operations | (20.14) | 7.96 |
| Basic (loss)/earnings per share attributable to equity holders of the Company for the continuing operations | (20.14) | 5.13 |
| Basic earnings per share attributable to equity holders of the Company for the discontinued operations | N/A | 2.83 |

**15. EMPLOYEE BENEFIT EXPENSE (including Directors' emoluments)**

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Basic salaries | 2,977 | 1,772 | – | 618 | 2,977 | 2,390 |
| Discretionary bonuses | 44 | 1,741 | – | 133 | 44 | 1,874 |
| Contributions to defined contribution plans | 95 | 67 | – | 19 | 95 | 86 |
| | 3,116 | 3,580 | – | 770 | 3,116 | 4,350 |

**16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS**

**16.1 Directors' emoluments – Executive Directors and Non-Executive Directors**

The emoluments paid or payable to the Directors were as follows:

| | **Fees** | **Other emoluments** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Year ended 31st December, 2008 | | | |
| *Executive Directors* | | | |
| Lee Wa Lun, Warren (resigned as Managing Director and appointed as Chairman on 17th March, 2009) | 20 | 2,590 | 2,610 |
| Lo King Yau, Edwin | 1 | – | 1 |
| Wong Tai Chun, Mark* (appointed on 5th December, 2008) | – | – | – |
| Lee Seng Hui (appointed as Chairman on 23rd May, 2008 and resigned as Chairman and Executive Director on 5th December, 2008) | 66 | – | 66 |
| *Non-Executive Directors* | | | |
| Arthur George Dew | 6 | – | 6 |
| Lee Yip Wah, Peter | 20 | – | 20 |
| Wong Tai Chun, Mark (ceased to act as Alternate Director to Arthur George Dew on 5th December, 2008) | – | – | – |
| Fung Wing Cheung, Tony (retired as Chairman and Non-Executive Director on 23rd May, 2008) | 20 | – | 20 |
| Fung Yiu Fai, Peter (resigned on 23rd May, 2008) | 20 | – | 20 |
| Chan Kin (resigned on 18th January, 2008) | – | – | – |
| *Independent Non-Executive Directors* | | | |
| So Shu Fai, Ambrose | 20 | – | 20 |
| Albert Ho | 70 | – | 70 |
| Lam Tak Yee# (appointed on 23rd May, 2008) | – | – | – |
| Chow Yu Chu, Alexander (resigned on 23rd May, 2008) | 120 | – | 120 |
| | 363 | 2,590 | 2,953 |

* *Subject to shareholders' approval in the forthcoming annual general meeting, Mr. Wong Tai Chun, Mark will entitle to receive a director's fee of HK$20,000 per annum on a pro-rata basis, i.e. approximately of HK$1,500 for the year ended 31st December, 2008.*

\# *Subject to shareholders' approval in the forthcoming annual general meeting, Ms. Lam Tak Yee will entitle to receive a director's fee of approximately HK$43,000 for the year ended 31st December, 2008.*

The emoluments paid or payable to the Directors were as follows:

| | **Fees** | **Other emoluments** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Year ended 31st December, 2007 | | | |
| *Executive Directors* | | | |
| Lee Wa Lun, Warren | 1,158 | 1,771 | 2,929 |
| Lee Seng Hui (re-designated from Non-Executive Director on 30th November, 2007) | 70 | – | 70 |
| Lo King Yau, Edwin (appointed on 30th November, 2007) | – | – | – |
| *Non-Executive Directors* | | | |
| Fung Wing Cheung, Tony (re-designated from Executive Director on 30th November, 2007) | 20 | – | 20 |
| Fung Yiu Fai, Peter (re-designated from Executive Director on 1st June, 2007) | 20 | – | 20 |
| Arthur George Dew (appointed on 30th November, 2007) | – | – | – |
| Lee Yip Wah, Peter | 20 | – | 20 |
| Wong Tai Chun, Mark (appointed on 30th November, 2007 as Alternate Director to Arthur George Dew) | – | – | – |
| Chan Kin (appointed on 21st June, 2007 and resigned on 18th January, 2008) | – | – | – |
| Yeh V-Nee (appointed on 1st March, 2007 and resigned on 21st June, 2007) | – | – | – |
| *Independent Non-Executive Directors* | | | |
| So Shu Fai, Ambrose | 20 | – | 20 |
| Chow Yu Chu, Alexander | 120 | – | 120 |
| Albert Ho | 70 | – | 70 |
| | 1,498 | 1,771 | 3,269 |

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

### 16.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2007: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2007: three) individual(s) during the year are as follows:

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Basic salaries | 114 | 264 | – | 602 | 114 | 866 |
| Discretionary bonuses | 44 | 22 | – | 133 | 44 | 155 |
| Contributions to defined contribution plans | 5 | 15 | – | 19 | 5 | 34 |
| | 163 | 301 | – | 754 | 163 | 1,055 |

The emoluments of the remaining one (2007: three) individual(s) fell within the emolument band of "Nil – HK$1,000,000".

During the year ended 31st December, 2008, no emoluments were paid by the Group to the Directors or the remaining one (2007: three) highest paid individual(s) as an inducement to join or upon joining the Group or as compensation for loss of office.

## 17. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM/(TO) SUBSIDIARIES

**COMPANY**

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | 1,503 | 1,503 |
| Less: Impairment loss recognised | (103) | (103) |
| | 1,400 | 1,400 |
| Amounts due from subsidiaries | 1,290,996 | 1,178,053 |
| Less: Impairment loss recognised | (716,386) | (397,015) |
| Portion due within one year included under current assets | 574,610 | 781,038 |
| Amounts due to subsidiaries, due within one year included under current liabilities | (7,424) | (247,656) |

The amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand. Accordingly, the amounts are classified as current assets/(liabilities).

Particulars of the principal subsidiaries at 31st December, 2008 are as follows:

| Name | Place/Country of incorporation and kind of legal entity | Particulars of issued share capital | Percentage of issued capital held by the Company Directly | Indirectly | Principal activities and place of operations |
|---|---|---|---|---|---|
| Asia Vision Holdings Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$0.01 each | 100% | – | Investment holding, Hong Kong |
| Capital Sharp Investment Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | – | Investment holding, Hong Kong |
| Contana Investment Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | – | Investment holding, Hong Kong |
| CMS Investments Limited | Hong Kong, limited liability company | 1 ordinary share of HK$0.01 each | 100% | – | Investment holding, Hong Kong |
| The Hong Kong Equity Guarantee Corporation Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | – | Investment holding, Hong Kong |
| Long Rainbow Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | – | Investment holding, Hong Kong |
| Long Scene Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | – | Investment holding, Hong Kong |
| Long Set Investments Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | – | Investment holding, Hong Kong |
| Long Resources Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | – | Investment holding, Hong Kong |
| Longson Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | – | Investment holding, Hong Kong |
| Mix Limited | Hong Kong, limited liability company | 1,400,000 ordinary shares of HK$1 each | 100% | – | Investment holding, Hong Kong |
| Odelon Limited | Hong Kong, limited liability company | 2 ordinary shares of HK$1 each | 100% | – | Investment holding, Hong Kong |

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.

**18. INTERESTS IN ASSOCIATES**

**GROUP**

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Share of net assets | – | – |
| Goodwill | 35,964 | 35,964 |
| | 35,964 | 35,964 |
| Loans to associates | – | 25,636 |
| | 35,964 | 61,600 |
| Less: Impairment loss | (35,964) | (61,600) |
| | – | – |

The loans to associates are unsecured, interest free and no fixed terms of repayment.

Included in the cost of investments in associates was goodwill of HK$35,964,000 (2007: HK$35,964,000) arising on acquisition of an associate during the year ended 31st December, 2005. There was no movement of goodwill during the years ended 31st December, 2007 and 2008, and its carrying amount is summarised below:

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At 1st January and 31st December | | |
| Gross amount | 35,964 | 35,964 |
| Accumulated impairment | (35,964) | (35,964) |
| Carrying amount | – | – |

As at 31st December, 2008, the following list contains the associates of the Group which in the opinion of the Directors, principally affect the results for the year or 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:

| **Name** | **Particulars of issued shares held** | **Country of incorporation** | **Principal activities** | **Group's equity interest** |
|---|---|---|---|---|
| Oriental Cashmere Limited | 2,000 ordinary shares of US$1 each | British Virgin Islands | Manufacturing and trading of cashmere products | 25% |

The summarised financial information in respect of the interests in associates attributable to the Group is set out below:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Total assets | 34,479 | 40,654 |
| Total liabilities | (68,031) | (93,018) |
| Revenue | 73,996 | 50,299 |
| Loss for the year | (3,666) | (2,401) |

**19. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

**GROUP**

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Non-current | | |
| Listed equity and debt securities *(Note 19.1)* | 53,751 | 39,104 |
| Unlisted equity and debt securities (*Note 19.2)* | 22,005 | 15,599 |
| | 75,756 | 54,703 |
| Current | | |
| Unlisted debt securities *(Note 19.2)* | – | 1 |
| Total | 75,756 | 54,704 |

Available-for-sale financial assets are denominated in the following currencies:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| HK dollar | 47,723 | 38,494 |
| Renminbi | 6,028 | – |
| US dollar | 22,005 | 15,617 |
| UK pound | – | 593 |
| | 75,756 | 54,704 |

**19.1 Listed equity and debt securities**

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Listed equity and debt securities | | |
| – Listed in Hong Kong | 28,375 | 38,494 |
| – Listed outside Hong Kong | 25,376 | 610 |
| | 53,751 | 39,104 |
| Market value of listed equity and debt securities | 53,751 | 39,104 |

Fair values for these securities have been determined by reference to their quoted bid prices at the balance sheet date in an active market.

These financial assets are subject to financial risk exposure in term of price and currency risks.

Particulars of the major investment in listed equity and debt securities at 31st December, 2008 is as follows:

*Dan Form Holdings Co Ltd ("Dan Form")*

Dan Form was incorporated in Hong Kong and the shares of which are listed on the main board of the Stock Exchange (stock code: 00271). Dan Form, through its subsidiaries, invests in and develops properties and also provides estate management, financing services, and trades securities.

As at 31st December, 2008, the Group held 52,876,000 shares (2007: 52,370,000 shares) in Dan Form, representing 4.66% (2007: 4.61%) interest in the issued share capital of Dan Form and carrying book cost was approximately HK$19 million (2007: approximately HK$19 million). No dividend was received during the year. Based on the interim report of Dan Form at 30th June, 2008, the unaudited consolidated profit attributable to equity holders of Dan Form was HK$213 million with basic earnings per share of HK18.74 cents. As at 30th June, 2008, the unaudited consolidated net assets of Dan Form were approximately HK$2,456 million. As at 31st December, 2008, the market value of the Group's investment in Dan Form was approximately HK$15 million (2007: approximately HK$36 million) and Dan Form is one of the top ten investments.

*Convertible Bonds of New World Development Company Limited*

During the period from November 2008 to December 2008, the Group subscribed for the zero coupon convertible bond with an aggregate principal amount of HK$46 million issued by a wholly-owned subsidiary (the "Issuer") of New World Development Company Limited ("New World Development"), with maturity on 4th June, 2014. The Issuer may at any time after 4th June, 2012 and prior to maturity redeem all and some only of the convertible bonds with a gross yield of 3.60% per annum and upon maturity, the Issuer will redeem the bonds with the redemption premium at 28.37%. The Group may exercise conversion rights at any time up to 25th May, 2014 at a conversion price of HK$26.784 for one ordinary share of New World Development.

New World Development was incorporated in Hong Kong and its shares are listed on the main board of the Stock Exchange (stock code: 00017). New World Development is an investment holding company. It, through its subsidiaries, is principally engaged in property investment and development, contracting, provision of services, infrastructure operations, telecommunication services, department store operations, hotel and restaurant operations and telecommunications, media, technology businesses.

As at 31st December, 2008, the Group held the convertible bonds of New World Development ("New World Convertible Bonds") with nominal value of HK$46 million and carrying book cost of approximately HK$25 million (2007: Nil). Based on the interim results announcement of New World Development at 31st December, 2008, the unaudited consolidated loss attributable to equity holders of New World Development was HK$992 million with basic loss per share of HK$0.28. As at 31st December, 2008, the unaudited consolidated equity attributable to equity holders of New World Development were approximately HK$70,399 million. As at 31st December, 2008, the market value of the debt element and derivative element of the Group's investment in New World Convertible Bonds were approximately HK$25 million (2007: Nil) and HK$0.7 million respectively (2007: Nil). New World Convertible Bonds is one the top ten investments.

*Debt Securities – Convertible Bonds*

The Group holds convertible redeemable bonds listed in Hong Kong and Singapore with fixed interest range from 0% to 1% per annum. The convertible bonds are redeemable at 102.27%–128.37% and will mature from June 2012 to June 2014.

The convertible bonds are separated into two components: the debt element and the conversion options element. The Group has classified the debt element as available-for-sale financial assets and the conversion options element as derivative financial instruments.

The methods and assumptions applied for the valuation of the convertible bonds are as follows:

(i) Valuation of debt element

The debt element is recognised at fair value at date of initial recognition and subsequent measurement with fair value change at each reporting date recognised directly in equity until the convertible bond is sold. As at 31st December, 2008, the fair value of the debt element is approximately HK$37,787,000 which was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to bond issuers of similar credit rating and remaining time to maturity. The effective interest rates of the debt element at 31st December, 2008 range from 12.09% to 14.58%. The fair values of the debt element have been determined by a firm of independent professional valuers, Greater China Appraisal Limited ("GCA").

(ii) Valuation of derivative element

The derivative element is recognised at fair value at initial recognition and subsequent measurement with fair value change at each reporting date recognised in income statement.

Binomial Option Pricing Model is used for valuation of derivative element. The inputs into the model are as follows:

| | **Convertible bonds mature in** | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| Stock price (HK$) | 2.36 | 2.08 | 7.86 |
| Expected volatility | 55.87% | 36.57% | 49.28% |
| Risk free rate | 0.92% | 1.12% | 1.19% |
| Time to maturity (years) | 3.45 | 4.42 | 5.43 |
| Expected dividend yield | 2.54% | 18.36% | 5.47% |

The fair values of the derivative element have been determined by a firm of independent professional valuers, GCA.

**19.2 Unlisted equity and debt securities**

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Unlisted equity and debt securities, at cost | 15,584 | 15,584 |
| Unlisted equity and debt securities, at fair value | 6,421 | 16 |
| | 22,005 | 15,600 |

The unlisted equity and debt securities stated at cost less impairment losses are the securities with no quoted market prices in active markets and the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair value cannot be measured reliably. The Group plans to hold these investments for the foreseeable future.

Particulars of the major investments in unlisted equity and debt securities at 31st December, 2008 is as follows:

*Sun Hung Kai Asian Opportunities Fund ("SHK Fund")*

The SHK Fund is structured as a Cayman Islands exempted limited partnership. SHK Fund primarily invests in listed or unlisted shares, equity loan notes, other equity or debt instruments or physical assets, covering markets including Hong Kong, Macau and the People's Republic of China (the "PRC"). As at 31st December, 2008, SHK Fund is one of the top ten investments.

As at 31st December, 2008, the Group held US$2 million interest (2007: US$1 million) in SHK Fund. No dividend was received during the year. As at 31st December, 2008, the capital account balance of the investment in SHK Fund was approximately US$1.7 million.

*Springs China Opportunities Feeder Fund, Class A Unrestricted ("Springs China Fund")*

The Springs China Fund is an exempted open-ended investment company with limited liability incorporated in the Cayman Islands. Springs China Fund primarily invests in Hong Kong listed H-shares and the PRC listed A-shares and B-shares, covering different industries.

As at 31st December, 2008, the Group held 10,000 shares (2007: 10,000 shares) in Springs China Fund and carrying book cost was US$1 million (2007: US$1 million). No dividend was received during the year. As at 31st December, 2008, the unaudited net asset value of the Group's investment in Springs China Fund was approximately US$0.8 million (2007: approximately US$1.3 million).

## 20. HELD-TO-MATURITY INVESTMENTS

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Guaranteed notes – listed debt securities | 7,648 | – |

The debt securities represent notes denominated in US dollar with fixed interest rate of 5.25% per annum and mature on 20th July, 2015. The Group receives related interest payments semi-annually. The debt securities are neither past due nor impaired and are issued by corporate entities with credit rating ranging from BBB to Baa2.

As at 31st December, 2008, the fair values of the guaranteed notes are not materially different from their carrying amounts. Fair values are determined by reference to published price quotation.

## 21. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

**GROUP**

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade receivables | 58,305 | – |
| Other receivables | 19,440 | 1,037 |
| Prepayment | 185 | – |
| | 77,930 | 1,037 |

Trade receivable represents the amount receivable arising from the disposal of warrants ("J. Bridge Warrants") issued by J. Bridge Corp., a company incorporated under the Law of Japan and listed on the second section of Tokyo Stock Exchange ("J. Bridge"). It is stated at amortised cost using the effective interest method, less impairment losses, if any.

On 13th November, 2008 and 19th November, 2008, a sale and purchase agreement and a supplemental agreement (the "Agreements") had been entered into respectively between a wholly-owned subsidiary of the Company (the "Vendor") and a third party (the "Purchaser") independent of the Company and its connected persons. The transaction was completed on 31st December, 2008 (the "Completion Date"). According to the Agreements, the Purchaser had bought 45,000 units of J. Bridge Warrants (the "Sales Warrants") at a consideration of US$9,375,000 (the "Consideration"), which was to be satisfied in the following manner:

(a) as to US$4 million payable upon the Completion Date;

(b) in aggregate with all previous payments, at least US$6 million shall have been paid on the first anniversary day of the Completion Date;

(c) in aggregate with all previous payments, at least US$8 million shall have been paid on the second anniversary day of the Completion Date; and

(d) as to the remaining balance of the Consideration after early payment adjustment as set out below payable on or before the third anniversary day of the Completion Date.

Should the Purchaser pay the Consideration before the above payment schedule, the Consideration will be adjusted for payment received earlier than scheduled at a rate of 8% per annum over the amount so paid.

At Completion Date the Vendor had executed transfer forms in respect of the Sales Warrants in favour of the Purchaser and held the duly executed transfer form together with relative certificates representing the Sales Warrants ("Escrow Documents") in escrow pending full payment of the Consideration. A cheque of US$4 million, representing 42% of the Consideration, was given to the Vendor by the Purchaser on the same date.

Transfer of custody of the Sales Warrants will take place upon full payment of the Consideration by the Purchaser.

If the Purchaser is in default of any of the payment sums, the Purchaser agreed that, without prejudice to any claims and remedies the Vendor may have against the Purchaser, the Vendor shall be entitled to forfeit for its absolute use any payments of the Consideration already made and terminate the Agreements by notice in writing to that effect to the Purchaser and release the Escrow Documents to the Vendor for cancellation of the executed transfer form and for return of the relative certificates representing the Sales Warrants to the Vendor. If the Purchaser defaults on the amount due under the Agreements, the Group's recourse on the outstanding amount is limited to the Escrow Documents comprising the Sale Warrants, and legal actions against the Purchaser. As at 31st December, 2008, the market price of the share of J. Bridge was JPY16 and the exercise price of the Sales Warrants was JPY 45. The value of the Sale Warrants normally fluctuates with that of the market price of the shares of J. Bridge. Therefore, value of the Sale Warrants may be nominal if the market price of the shares of J. Bridge is below that of the exercise price of the Sale Warrants.

At Completion Date, the fair value of the Sales Warrant was approximately HK$8,170,000. Fair value of the Sales Warrant has been determined by a firm of professional valuers, GCA, by using Binomial Option Pricing Model. The significant inputs into the model were share price of JPY16, strike price of JPY45, time to maturity of 3.50 years, volatility of 85.04%, risk-free rate 0.52% and dilutive factor of 57.54%. The amortised cost of the trade receivable has been determined by GCA, having taken into consideration of the effective interest rates, credit rating and default risk of the Purchaser and the prepayment option.

The ageing analysis of the trade receivables was as follows:

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within one year | 58,305 | – |

The ageing analysis of the Group's trade receivables that are neither individually nor collectively considered to be impaired are as follows:

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Neither past due nor impaired | 58,305 | – |

Trade receivables that were neither past due nor impaired related to customer for whom there was no recent history of default.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

**GROUP**

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Equity securities held for trading | | |
| Listed in Hong Kong *(Note 22.1)* | 228,565 | 129,831 |
| Listed outside Hong Kong *(Note 22.2)* | 56,336 | 103,886 |
| Market value of listed securities | 284,901 | 233,717 |
| Unlisted structured financial products *(Note 22.3)* | 14,168 | – |
| Conversion options embedded in convertible bonds *(Note 19.1)* | 3,483 | – |
| Other derivative financial instruments | | |
| Unlisted warrants *(Note 22.4)* | 2,724 | 42,597 |
| Equity forward contracts *(Note 22.5)* | – | 10,321 |
| | 305,276 | 286,635 |

Financial assets at fair value through profit or loss are denominated in the following currencies:

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| HK dollar | 229,350 | 140,152 |
| US dollar | 29,033 | – |
| Malaysian ringgit | 28,375 | 64,243 |
| Australian dollar | 4,372 | 5,647 |
| Japanese yen | 4,867 | 49,514 |
| New Taiwan dollar | 6,581 | 27,079 |
| Renminbi | 2,698 | – |
| | 305,276 | 286,635 |

The above financial assets are classified as held for trading.

Fair values for the listed securities have been determined by reference to their quoted bid prices at the balance sheet date.

Fair value loss of HK$398,915,000 (2007: gain of HK$39,971,000) has been recognised in the consolidated income statement.

**22.1 Equity securities listed in Hong Kong**

Particulars of the major investments as at 31st December, 2008, which are also the top ten investments in terms of carrying value of the respective investments, are as follows:

*Hong Kong Exchanges and Clearing Limited ("HKEx")*

HKEx was incorporated in Hong Kong and its shares are listed on the main board of the Stock Exchange (stock code: 00388). HKEx owns and operates the stock exchange and futures exchange in Hong Kong and their related clearing houses.

As at 31st December, 2008, the Group held 590,000 shares (2007: Nil) in HKEx, representing approximately 0.05% (2007: Nil) interest in the issued share capital of HKEx and the carrying book cost was approximately HK$75 million (2007: Nil). Dividends of HK$2,483,000 were received during the year. Based on the annual report of HKEx at 31st December, 2008, the audited consolidated profit attributable to equity holders of HKEx was HK$5,129 million with basic earnings per share of HK$4.78. As at 31st December, 2008, the audited consolidated net assets of HKEx were approximately HK$7,295 million. As at 31st December, 2008, the market value of the Group's investment in HKEx was approximately HK$43 million (2007: Nil).

*PetroChina Company Limited ("PetroChina")*

PetroChina was incorporated in PRC and its shares are listed on the main board of the Stock Exchange (stock code: 00857). PetroChina is a producer of crude oil and natural gas in China. It is engaged in a range of petroleum and natural gas related activities, including the exploration, development, production and sale of crude oil and natural gas.

As at 31st December, 2008, the Group held 5,849,000 shares (2007: 587,000 shares) in PetroChina, representing less than 0.01% (2007: 0.01%) interest in the issued share capital of PetroChina and the carrying book cost was approximately HK$61 million (2007: approximately HK$9 million). Dividends of HK$827,000 were received during the year. Based on summary of the 2008 annual report of PetroChina at 31st December, 2008, the audited consolidated profit attributable to equity holders of PetroChina was RMB114,431 million with basic earnings per share of RMB0.63. As at 31st December, 2008, the audited consolidated equity attributable to equity holders of PetroChina were approximately RMB790,838 million. As at 31st December, 2008, the market value of the Group's investment in PetroChina was approximately HK$40 million (2007: approximately HK$8 million).

*APAC Resources Company Limited ("APAC Resources")*

APAC Resources was incorporated in Bermuda and its shares are listed on the main board of the Stock Exchange (stock code: 01104). APAC Resources is principally engaged in : (i) trading in base metals; (ii) trading in fabric products and other merchandises; and (iii) trading and investment of listed securities.

As at 31st December, 2008, the Group held 54,000,000 shares (2007: 15,000,000 shares) in APAC Resources, representing 1.14% (2007: 0.32%) interest in the issued share capital of APAC Resources and carrying book cost was approximately HK$59 million (2007: approximately HK$18 million). No dividend was received during the year. Based on the interim report of APAC Resources at 30th June, 2008, the unaudited consolidated profit attributable to equity holders of APAC Resources was HK$259 million with basic earnings per share of HK5.47 cents. At at 30th June, 2008, the unaudited consolidated net assets attributable to equity holders of APAC Resources were approximately HK$5,330 million. As at 31st December, 2008, the market value of the Group's investment in APAC Resources was approximately HK$18 million (2007: approximately HK$22 million).

*Industrial and Commercial Bank of China Limited (“ICBC”)*

ICBC was incorporated in PRC and its shares are listed on the main board of the Stock Exchange (stock code: 01398). The principal activities of the ICBC comprise the provision of banking services including Renminbi (‘‘RMB’’) and foreign currency deposits, loans, payment and settlement services, and other services as approved by the China Banking Regulatory Commission (the ‘‘CBRC’’) of the PRC, and the provision of related services by its overseas establishments as approved by the respective local regulators.

As at 31st December, 2008, the Group held 5,769,000 shares (2007: 4,000,000 shares) in ICBC, representing less than 0.01% (2007: less than 0.01%) interest in the issued share capital of ICBC and the carrying book cost was approximately HK$34 million (2007: approximately HK$27 million). Dividends of HK$601,000 were received during the year. Based on the result announcement of ICBC at 31st December, 2008, the audited consolidated profit attributable to equity holders of ICBC was RMB110,841 million with basic earnings per share of RMB0.33. As at 31st December, 2008, the audited consolidated equity attributable to equity holders of ICBC were approximately RMB602,675 million. As at 31st December, 2008, the market value of the Group's investment in ICBC was approximately HK$24 million (2007: approximately HK$22 million).

*Ping An Insurance (Group) Company of China, Ltd. (“Ping An”)*

Ping An was incorporated in the PRC and its shares are listed on the main board of the Stock Exchange (stock code: 02318). Ping An is a China-based company. It is engaged in providing a range of financial products and services with a focus on life and property and casualty insurance products.

As at 31st December, 2008, the Group held 647,000 shares (2007: Nil) in Ping An, representing less than 0.01% (2007: Nil) interest in the issued share capital of Ping An and carrying book cost approximately HK$36 million (2007: Nil). Dividends of HK$211,000 were received during the year. Based on the third quarterly report of Ping An at 30th September, 2008, the unaudited consolidated profit attributable to equity holders of Ping An was RMB1,610 million with basic earnings per share of RMB0.22. As at 30th September, 2008, the unaudited consolidated equity attributable to equity holders of Ping An were approximately RMB81,572 million. As at 31st December, 2008, the market value of the Group's investment in Ping An was approximately HK$24 million (2007: Nil).

**22.2 Equity securities listed outside Hong Kong**

*DutaLand Berhad ("DutaLand")*

DutaLand Berhad is an established public company listed on the Bursa Malaysia Securities Berhad. Its group of companies is involved mainly in oil palm plantations, property development and property investments.

As at 31st December, 2008, the Group held 22,412,800 shares (2007: 22,148,200 shares) in DutaLand, representing 3.97% (2007: 3.92%) interest in the issued share capital of DutaLand and carrying book cost of was approximately HK$60 million (2007: approximately HK$60 million). No dividend was received during the year. Based on the unaudited financial statements of DutaLand for the six months ended 31st December, 2008, the unaudited consolidated loss attributable to equity holders of DutaLand was MYR17 million with basic loss per share of MYR2.94 sen. As at 31st December, 2008, the unaudited consolidated net assets attributable to equity holders of DutaLand were approximately MYR 781 million. As at 31st December, 2008, the market value of the Group's investment in DutaLand was approximately HK$22 million (2007: approximately HK$55 million).

*Citigroup Inc.*

Citigroup Inc. is a global diversified financial services holding company whose businesses provide a broad range of financial services to customer and corporate customers. On 16th January, 2009, Citigroup Inc. announced a realignment, for management and reporting purposes, into two businesses: Citigroup, primarily comprised of its global institutional bank and international regional consumer bank; and Citi Holdings, primarily comprised of its brokerage and asset management business, local consumer finance business, and a special asset pool. It operates in five business segments: global cards, consumer banking, institutional clients group, global wealth management, and corporate/other.

As at 31st December, 2008, the Group held 280,000 shares (2007: Nil) in Citigroup Inc., representing less than 0.01% (2007: Nil) interest in the issued share capital of Citigroup Inc. and carrying book cost was approximately HK$63 million (2007: Nil). Dividends of HK$1,735,000 were received during the year. Based on the annual report of Citigroup Inc. at 31st December, 2008, the audited consolidated loss from continuing operations attributable to equity holders of Citigroup Inc. was US$32,443 million with basic loss per share of US$6.42. As at 31st December, 2008, the audited consolidated net assets of Citigroup Inc. were approximately US$141,630 million. As at 31st December, 2008, the market value of the Group's investment in Citigroup Inc. was approximately HK$15 million (2007: Nil).

**22.3 Unlisted structured financial products**

Fair values for the structured financial products have been determined by a firm of professional valuers, GCA, by using the Binomial Option Pricing Model. The significant inputs into the model were as follows:

| | **MSCI Taiwan Index** | **Hang Seng Index** | **A50 China Tracker** |
|---|---|---|---|
| Spot level/stock price | 173.37 | 14,387.50 | 8.36 |
| Expected volatility | 45.25% | 61.17% | 85.10% |
| Risk free rate | 1.07% | 0.07% | 0.05% |
| Time to maturity (years) | 0.35 | 0.48 | 0.36 |
| Expected dividend yield | 0% | 0% | 2.21% |
| Knock-in barrier | 225.16 | 13,672.80 | 9.36 |

The above financial instruments are classified as held for trading.

These financial assets are subject to financial risk exposure in term of price risk.

**22.4 Unlisted warrants**

As at 31st December, 2008, the major terms of the warrants are as follows:

| **Notional amount** *JP¥'000* | **Number of options** | **Maturity** | **Underlying stock** |
|---|---|---|---|
| 75,000 | 15,000 | 2nd July, 2012 | J. Bridge |

Fair values for the unlisted warrants have been determined by a firm of professional valuers, GCA, by using the Binomial Option Pricing Model. The significant inputs into the model were share price of JP¥16 (2007: JP¥40), strike price of JP¥45, time to maturity of 3.5 years (2007: 4.5 years), volatility of 85.04% (2007: 78.05%), risk-free rate 0.52% (2007: 0.8%) and dilutive factor of 57.54% (2007: 57.54%).

**22.5 Equity forward contracts**

As at 31st December, 2007, the major terms of the equity forward contracts were as follows:

| | Notional principal amount outstanding *HK$'000* | Maturity | Underlying stock |
|---|---|---|---|
| A | 57,827 | 6th November, 2008 | Hong Kong Stock Exchange |
| B | 16,542 | 5th November, 2008 | PetroChina |
| C | 57,915 | 7th November, 2008 | Hong Kong Stock Exchange |
| D | 19,823 | 7th November, 2008 | PetroChina |
| E | 21,845 | 7th November, 2008 | China Shenhua |
| F | 16,628 | 7th November, 2008 | China Merchants |
| G | 10,980 | 7th November, 2008 | Bank of China |
| H | 40,030 | 3rd December, 2008 | Ping An Insurance |

Under the terms of the contracts, the Group was obligated to acquire the underlying shares of each contract at a forward price for a year long. The contracts required no initial cost. Pre-determined number of shares was accumulated to be acquired by the Group on a daily basis and they were settled on monthly basis. The key terms of these contracts incorporated knock-out and gearing properties. A knock-out price was set for each contract, once the daily share price of the underlying shares triggers the knock-out price, the contract was closed out immediately. However, if the daily share price of the underlying share fell below the forward price, the Group had to acquire double of the pre-determined daily number of shares.

Fair values for the forward contracts were determined by a firm of professional valuers, GCA, by using the Binomial Option Pricing Model. The significant inputs into the model were as follows:

| | Share price *HK$* | Forward price *HK$* | Time to maturity *Year* | Volatility | Risk-free rate | Dividend yield | Fair value as at 31st December, 2007 *HK$'000* |
|---|---|---|---|---|---|---|---|
| A | 221.20 | 196.61 | 0.85 | 46.85% | 2.55% | 2.70% | 4,909 |
| B | 13.90 | 14.67 | 0.85 | 42.87% | 2.55% | 3.21% | (1,006) |
| C | 221.20 | 211.07 | 0.85 | 46.85% | 2.55% | 2.70% | 2,120 |
| D | 13.90 | 14.25 | 0.85 | 42.87% | 2.55% | 3.21% | (558) |
| E | 46.60 | 38.59 | 0.85 | 51.69% | 2.55% | 1.28% | 1,588 |
| F | 31.50 | 30.76 | 0.85 | 38.50% | 2.55% | 0.49% | 612 |
| G | 3.78 | 4.00 | 0.85 | 34.50% | 2.55% | 1.06% | (621) |
| H | 83.70 | 73.03 | 0.93 | 50.19% | 2.55% | 1.00% | 3,277 |
| | | | | | | | 10,321 |

These financial assets were subject to financial risk exposure in term of price risk.

**23. OTHER RESTRICTED DEPOSIT PAID**

As at 31st December, 2008, the deposits of HK$20,049,000 (2007: HK$24,014,000) were paid to a financial institution to secure settlement for the equity forward contracts (Note 26).

**24. CASH AND CASH EQUIVALENTS**

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cash and bank balances | 60,334 | 175,464 | 1,803 | 746 |
| Short-term time deposits | 74,825 | 476,710 | 74,825 | 445,168 |
| Cash and cash equivalents | 135,159 | 652,174 | 76,628 | 445,914 |

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposits rates of 0.10% to 4.95% (2007: 2.25% to 4.75%) per annum. The Directors considered that the fair value of the short-term bank deposits is not materially different from its carrying amount because of its short-maturity period.

Included in cash and cash equivalents of the Group and the Company is HK$54,568,000 (2007: HK$31,447,000) and HK$4,326,000 (2007: Nil) of bank balances denominated in USD respectively. The Group and the Company did not have significant exposure to foreign currency risk at 31st December, 2008.

**25. OTHER PAYABLES AND ACCRUED EXPENSES**

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Other payables and accrued expenses | 4,347 | 21,683 | 4,347 | 21,683 |

As at 31st December, 2008, included in other payables and accrued expenses of the Group were i) amount due to a related company amounted to HK$2,973,000 (2007: HK$18,864,000) of which HK$2,073,000 (2007: HK$18,262,000) represented the unsettled management fee and performance fee charged to the Group; and ii) amount due to a shareholder amounted to HK$293,000 (2007: Nil) which represents the Directors' emoluments paid by Allied Group Limited ("AGL") on behalf of the Group.

Mr. Lee Wa Lun, Warren is the common director of the Company and that related company. The amount due to the related company is unsecured, interest-free and repayable on demand.

**26. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

**GROUP**

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Derivative financial instruments | | |
| Listed put options – USD | – | 3,900 |
| Equity forward contracts | 18,089 | – |

As at 31st December, 2008, the major terms of the equity forward contracts are as follows:

| | **Notional principal amount outstanding** *HK$'000* | **Maturity** | **Underlying stock** |
|---|---|---|---|
| A | 927 | 23rd February, 2009 | PetroChina |
| B | 1,958 | 14th April, 2009 | Industrial and Commercial Bank of China |
| C | 1,886 | 30th April, 2009 | PetroChina |
| D | 1,808 | 30th April, 2009 | Bank of Communications |
| E | 3,128 | 4th May, 2009 | Industrial and Commercial Bank of China |
| F | 5,331 | 6th May, 2009 | HSBC Holdings Plc |
| G | 2,300 | 18th May, 2009 | PetroChina |
| H | 1,945 | 27th May, 2009 | Bank of China |
| I | 3,121 | 29th May, 2009 | China Life Insurance |
| J | 3,978 | 3rd June, 2009 | Ping An |
| K | 2,293 | 3rd June, 2009 | New World Development |
| L | 2,148 | 12th June, 2009 | New World Development |
| M | 6,509 | 2nd September, 2009 | Bank of Communications |

Under the terms of the contracts, the Group is obligated to acquire the underlying shares of each contract at a forward price for a year long. The contracts require no initial cost. Predetermined number of shares is accumulated to be acquired by the Group on a daily basis and they are settled on monthly basis. The key terms of these contracts incorporate knockout and gearing properties. A knockout price is set for each contract, once the daily share price of the underlying shares trigger the knock-out price, the contract is closed out immediately. However, if the daily share price of the underlying share fall below the forward price, the Group has to acquire double of the predetermined daily number of shares.

Fair values for the forward contracts have been determined by a firm of professional valuers, GCA, by using the Binomial Option Pricing Model. The significant inputs into the model were as follows:

| | **Share price** *HK$* | **Forward price** *HK$* | **Time to maturity** *Year* | **Volatility** | **Risk-free rate** | **Dividend yield** | **Fair value as at 31st December, 2008** *HK$'000* |
|---|---|---|---|---|---|---|---|
| A | 6.79 | 9.21 | 0.15 | 59.75% | 0.02% | 4.83% | (345) |
| B | 4.08 | 4.92 | 0.28 | 83.76% | 0.05% | 3.70% | (584) |
| C | 6.79 | 9.44 | 0.33 | 92.52% | 0.09% | 4.83% | (966) |
| D | 5.59 | 9.08 | 0.33 | 93.14% | 0.09% | 5.08% | (1,194) |
| E | 4.08 | 4.99 | 0.34 | 85.71% | 0.09% | 3.70% | (957) |
| F | 73.70 | 123.49 | 0.35 | 70.22% | 0.09% | 9.78% | (3,518) |
| G | 6.79 | 9.21 | 0.38 | 87.80% | 0.10% | 4.83% | (1,029) |
| H | 2.12 | 3.33 | 0.40 | 82.20% | 0.11% | 5.36% | (1,278) |
| I | 23.55 | 24.16 | 0.41 | 79.67% | 0.11% | 2.03% | (640) |
| J | 37.50 | 53.27 | 0.42 | 98.22% | 0.11% | 2.12% | (1,855) |
| K | 7.86 | 15.65 | 0.42 | 87.20% | 0.11% | 5.47% | (1,660) |
| L | 7.86 | 14.86 | 0.45 | 85.27% | 0.11% | 5.47% | (1,603) |
| M | 5.59 | 6.98 | 0.67 | 68.94% | 0.14% | 5.08% | (2,460) |
| | | | | | | | (18,089) |

Fair value loss of HK$28,410,000 (2007: gain of HK$10,321,000) has been recognised in the consolidated income statement.

The above financial instruments are classified as held for trading as at 31st December, 2008. These financial instruments are subject to financial risk exposure in term of price risk.

Subsequent to 31st December, 2008, as at the date of this report, the daily share prices of all the underlying equity securities under the outstanding equity forward contracts are below the forward prices set at the respective equity forward contracts. Had all the underlying equity securities under these outstanding equity forward contracts been acquired on the forward price condition at the balance sheet date, their theoretical net settlement value would decrease by about HK$9 million based on the daily closing prices at trade date between 1st January, 2009 and the date of this report in which the lowest daily aggregate market value of these underlying equity securities under the outstanding equity forward contract is recorded. The theoretical net settlement value is the difference between the daily closing prices and the forward prices of those contracts multiplied by the maximum number of shares that has to be acquired up to the maturity dates of the contracts. These pro forma information is for illustrative purposes only and is not necessarily an indication of the fair value change in these equity securities and results of operation of the Group that actually would have been achieved had the acquisition of these equity securities been completed at the balance sheet date, nor is it intended to be a projection of future result.

As at 31st December, 2007, the major terms of the put options are as follows:

| **Notional amount**<br>*US$'000* | **Number of options** | **Maturity** | **Underlying stock** |
|---|---|---|---|
| 7,360 | 2,500 | 19th January, 2008 | Citigroup Inc. |
| 7,360 | 2,500 | 19th January, 2008 | Citigroup Inc. |

Fair values for the put options have been determined by reference to their quoted prices at 31st December, 2007.

The above financial instruments are classified as held for trading 31st December, 2007. These financial instruments are subject to financial risk exposure in term of price risk.

## 27. SHARE CAPITAL

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | *Number of shares* | *HK$'000* | *Number of shares* | *HK$'000* |
| Authorised: | | | | |
| Ordinary shares of HK$0.1 each | | | | |
| At 1st January | 2,100,000,000 | 210,000 | 2,100,000,000 | 210,000 |
| Increase | 900,000,000 | 90,000 | – | – |
| At 31st December | 3,000,000,000 | 300,000 | 2,100,000,000 | 210,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK$0.1 each | | | | |
| At 1st January | 1,869,171,989 | 186,917 | 1,691,171,989 | 169,117 |
| Exercise of warrants | 528 | – | – | – |
| Issued | – | – | 338,000,000 | 33,800 |
| Repurchased and cancelled | – | – | (160,000,000) | (16,000) |
| At 31st December | 1,869,172,517 | 186,917 | 1,869,171,989 | 186,917 |

By an ordinary resolution dated 24th July, 2007, 338,000,000 ordinary shares of the Company of HK$0.1 each were allotted at a subscription price of HK$0.66 each.

By a special resolution dated 2nd November, 2007, 160,000,000 ordinary shares of the Company of HK$0.1 each were repurchased from ASM Asia Recovery (Master) Fund and ASM Hudson River Fund, former substantial shareholders of the Company at a subscription price of HK$0.48 (totalling HK$76.8 million) each in an off-market manner pursuant to conditional repurchase agreement dated 16th September, 2007.

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled of HK$16 million was transferred from retained earnings to the capital redemption reserve. The premium paid on the repurchase of the shares of HK$60,877,000 (inclusive of expenses of repurchase and cancellation of shares) was charged to retained earnings.

An issue of warrants on the basis of one warrant for every five shares held was approved by the shareholders of the Company ("Shareholders") on 23rd May, 2008. On the same date, the authorised share capital of the Company was also approved to increase to HK$300 million divided into 3,000,000,000 shares at par value of HK$0.1 each.

The warrant holders are entitled to subscribe in cash for one fully paid share at an initial subscription price of HK$0.33 per share, subject to adjustment, at any time from 29th May, 2008 to 28th May, 2009 (both days inclusive). During the year, 528 warrants were converted into 528 ordinary shares at a subscription price of HK$0.33 per share. Accordingly 373,833,869 warrants were outstanding at 31st December, 2008. Exercise in full of the outstanding warrants would result in the issue of 373,833,869 additional shares with an aggregate subscription value of approximately HK$123,365,000.

**28. RESERVES**

**GROUP**

The amount 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 pages 36 to 37 of the financial statements.

Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

*Capital contribution reserve*

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of a PRC entity controlled by the Group's associate has been transferred to reserve funds which are restricted to use.

*Investment revaluation reserve*

Investment revaluation reserve represents changes in fair value of available-for-sale financial assets.

**COMPANY**

| | **Share premium** *HK$'000* | **Capital redemption reserve** *HK$'000* | **Retained earnings/ (accumulated losses)** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| At 1st January, 2007 | 311,582 | 4,032 | (80,457) | 235,157 |
| Profit for the year | – | – | 416,652 | 416,652 |
| Total recognised income and expense for the year | – | – | 416,652 | 416,652 |
| Proceeds from shares issued | 189,280 | – | – | 189,280 |
| Shares issuance expenses | (8,116) | – | – | (8,116) |
| Repurchase of shares | – | 16,000 | (76,877) | (60,877) |
| At 31st December, 2007 and 1st January, 2008 | 492,746 | 20,032 | 259,318 | 772,096 |
| Loss for the year | – | – | (317,895) | (317,895) |
| Total recognised income and expense for the year | – | – | (317,895) | (317,895) |
| Proceeds from shares issued# | – | – | – | – |
| At 31st December, 2008 | 492,746 | 20,032 | (58,577) | 454,201 |

# *During the year, HK$53 and HK$121 were received for share capital and share premium respectively as a result of exercise of the Company's warrants.*

**29. NET ASSET VALUE PER SHARE**

The calculation of net asset value per share is based on the net assets attributable to the equity holders of the Company of HK$598,172,000 (2007: HK$991,771,000) and 1,869,172,517 (2007: 1,869,171,989) ordinary shares in issue as at 31st December, 2008.

**30. DEFERRED TAX LIABILITIES**

**GROUP**

Deferred taxation is calculated on temporary differences under the liability method using a principal taxation rate of 16.5% (2007: 17.5%).

The movement in deferred tax (assets)/liabilities during the year is as follows:

| | Accelerated tax depreciation | | Fair value gain | | Tax losses | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st January | – | 5,133 | – | 64,580 | – | (1,213) | – | 68,500 |
| Charged/(credited) to income statement | – | 2,101 | – | – | – | (690) | – | 1,411 |
| Arising from disposal of a subsidiary | – | (7,234) | – | (64,580) | – | 1,903 | – | (69,911) |
| **At 31st December** | – | – | – | – | – | – | – | – |

As at 31st December, 2008, the Group has unused tax losses of HK$370,075,000 (2007: HK$79,000) available to offsetting against future taxable profits of the companies which incurred these losses. Deferred tax assets are not recognised in respect of these tax losses due to the unpredictability of future profit stream. These tax losses do not expire under current tax legislation. There were no material unrecognised deferred tax liabilities.

The Company had no material unrecognised deferred tax assets and liabilities as at 31st December, 2008 (2007: Nil).

**31. FINANCIAL GUARANTEE CONTRACTS**

As at 31st December, 2008, the Company has executed a guarantee to a financial institution to secure the borrowing facilities available to a wholly-owned subsidiary in the amount not exceeding US$20 million (2007: US$20 million).

**32. RELATED PARTY TRANSACTIONS**

Saved as those disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

**(a)**

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Yu Ming Investment Management Limited ("YMIM") | | |
| Management fee | 11,640 | 13,343 |
| Performance fee | – | 12,208 |

(a) Under the investment management agreement ("Existing Investment Management Agreement") approved by Shareholders on 27th March, 1997 and dated 5th March, 1997 between the Company and YMIM, of which Mr. Fung Wing Cheung, Tony, Mr. Fung Yiu Fai, Peter and Mr. Lee Wa Lun, Warren were the directors of YMIM and the Directors of the Company, YMIM agreed to assist the Board with the day-to-day management of the Group for a period of five years commencing on 27th March, 1997. YMIM was entitled to a management fee equal to 0.375% of the net asset value on each quarter date and an incentive fee equal to 20% of such amount (if any) by which the audited consolidated profit before tax for each financial year completed (before adjusting for the incentive fee) exceeds such amount as is equal to 6% of average monthly net asset value of the Group for each such financial year. For the calculation of management fee and incentive fee, the associated companies of the Group were not equity accounted for the purpose of calculating such quarterly and average monthly net asset value and consolidated profit before tax.

On 4th March, 2002, a supplemental agreement ("Supplemental Agreement") was approved by independent Shareholders to extend the expiry date of the Existing Investment Management Agreement to 31st March, 2007. Under the Supplemental Agreement, the management fee remained unchanged. Pursuant to the Supplemental Agreement, YMIM would not be entitled to the incentive fee if the Group reported an accumulated loss during the term of the Supplemental Agreement at the time of the incentive fee computation. Therefore, the incentive fee was equivalent to 20% of the amount by which the audited consolidated profit before tax for each year ending 31st December (before adjusting for the incentive fee), and after offsetting the accumulated losses during the term of the Supplemental Agreement, if any, exceeded 6% of the average monthly net asset value of the Group for such financial year. For the calculation of management fee and incentive fee, the associated companies and a jointly controlled entity of the Group would not be equity accounted for the purpose of calculating such quarterly and average monthly net asset value and consolidated profit before tax. For the year ended 31st December, 2007, no incentive fee was charged by YMIM.

Subsequent to the interim period ended 30th June, 2007, while the Company was negotiating a new investment management agreement ("New Investment Agreement") with YMIM, the Company entered into interim period agreements ("Interim Period Agreements") with YMIM on 31st March, 2007 and 22nd June, 2007 relating to the appointment of YMIM as the Company's investment manager for an interim period commencing on the expiry of the Supplemental Agreement, effectively from 1st April, 2007 to 4th August, 2007. The terms of the Interim Period Agreements are substantially the same as those contained in the Existing Investment Management Agreement and Supplemental Agreement, except that the incentive fee shall no longer be payable to YMIM during the interim period.

On 22nd June, 2007, the New Investment Management Agreement was entered into by the Company and YMIM, which was approved by the Shareholders of the Company on 3rd August, 2007. Under the New Investment Management Agreement, YMIM agreed to assist the Board with the day-today management of the Group from (i) earlier of 1st October, 2007; or (ii) the date immediately following the day on which the New Investment Management Agreement was approved by the Shareholders to 31st December, 2009. YMIM entitles to a management fee equal to 1.5% per annum of the consolidated net asset value of the Group attributable to the equity holders of the Company, calculated and payable in arrears on a quarterly basis by reference to the arithmetical average of the consolidated net asset value of the Group attributable to the equity holders of the Company on the last day of each calendar month during each quarter; and a performance fee equal to 20% of the amount by which the audited consolidated net asset value of the Group attributable to the equity holders of the Company of each year ending 31st December, exceeds (i) if a performance fee has been paid during the management period, the audited consolidated net asset value of the Group attributable to the equity holders of the Company as at the end of the latest financial year in which YMIM was entitled to a performance fee; or (ii) if no performance fee has been paid during the management period, the consolidated net asset value of the Group attributable to the equity holders of the Company on effective date of the New Investment Management Agreement.

On 24th August, 2007, YMIM became an indirectly wholly-owned subsidiary of AGL, a substantial shareholder of the Company. As at 31st December, 2008, (i) AGL held 26.98% (2007: 26.98%) interests in the share of the Company; (ii) Mr. Lee Seng Hui (resigned as a Director on 5th December, 2008), Mr. Lo King Yau, Edwin and Mr. Arthur George Dew were the common directors of the Company and AGL; and (iii) Mr. Fung Wing Cheung, Tony (retired as a Director during 2008) and Mr. Lee Wa Lun, Warren were the common directors of the Company and YMIM.

(b) The Group occupies office space of YMIM and reimburses to YMIM 40% of its office and equipment expenses in accordance with the Investment Management Agreement. Such expenses reimbursed to YMIM during the year ended 31st December, 2008 amounted to HK$700,000 (2007: HK$707,000). The Group utilised certain staff employed by YMIM and reimbursed staff costs of HK$398,000 to YMIM for the year ended 31st December, 2007. No such reimbursement was charged by YMIM during the year. Such reimbursed costs are included in "Administrative and other operating expenses" on the face of the consolidated income statement.

(c) The Group has been charged advisory fee of HK$200,000 (2007: HK$990,000) by YMIM.

(d) During the year ended 31st December, 2008, nil consultancy fee (2007: HK$480,000) was charged by Marking Limited, a former minority shareholder of the Group. Mr. Yu Kwok Chuen, Eddie is a shareholder of Marking Limited.

(e) On 3rd July, 2007, a subsidiary of the Company entered into a conditional sale and purchase agreement with a company ("Purchaser") owned by Mr. Fung Wing Cheung, Tony (retired as a Director during 2008) and Mr. Fung Yiu Fai, Peter (resigned as a Director during 2008), who are the Directors of the Company, to sell 61.22% equity interests of Honnex at a consideration of HK$372 million in cash. On 9th August, 2007, independent Shareholders approved this transaction. The transaction completed on 31st December, 2007 and the consideration was fully received.

(f) During the year ended 31st December, 2008, commission expenses of HK$1,789,000 (2007: HK$916,000) were charged by Sun Hung Kai Investments Services Limited, a subsidiary of AGL, a substantial shareholder of the Company, for securities transactions entered into.

(g) Under the placing agreement dated 25th July, 2007, Sun Hung Kai Investment Services Limited, a subsidiary of Sun Hung Kai & Co Limited ("SHK"), a former substantial shareholder of the Company, provided placing services to the Company and received a placing fee of approximately HK$7.8 million for placing 338,000,000 shares of the Company to independent investors at a price of HK$0.66 per share.

(h) On 16th November, 2007, a subsidiary of the Company purchased from SHK, a subsidiary of AGL which is a substantial shareholder of the Company, 60,000 warrants issued by J. Bridge at a consideration of JPY299,999,000 (equivalent to approximately HK$21 million).

## 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### 33.1 Disposal of a subsidiary, Honnex – Discontinued operation

| | **2007** |
|---|---|
| | *HK$'000* |
| Net assets disposed of: | |
| Investment properties | 1,347,245 |
| Trade receivables | 1,093 |
| Other receivables and deposits paid | 657 |
| Cash and cash equivalents | 3,438 |
| Other payables, accrued expenses and deposits received | (22,702) |
| Taxation payable | (29,209) |
| Bank borrowings | (697,000) |
| Deferred tax liabilities | (69,911) |
| Loan from minority interest | (32,145) |
| Minority interests | (166,328) |
| | 335,138 |
| Gain on disposal of a subsidiary *(Note 11)* | 36,490 |
| Net consideration | 371,628 |
| Satisfied by cash | |
| Consideration | 372,000 |
| Direct cost of disposal | (372) |
| Net consideration | 371,628 |

An analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

| | **2007** |
|---|---|
| | *HK$'000* |
| Net consideration | 371,628 |
| Cash and bank balances disposed | (3,438) |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | 368,190 |

**33.2 Disposal of a subsidiary, IEC Investments Limited, and a jointly controlled entity, Asia World-Expo Management Limited**

| | 2007 |
|---|---|
| | *HK$'000* |
| Net assets disposed of: | |
| Interests in a jointly controlled entity | 2,613 |
| Available-for-sale financial assets | 352,941 |
| Other receivables and deposits paid | 65,421 |
| Loan to minority interest | 25,600 |
| Cash and cash equivalents | 20,912 |
| Other payables, accrued expenses and deposits received | (3,638) |
| Bank borrowings | (167,301) |
| Loan from minority interest | (88,064) |
| Minority interests | (44,870) |
| | 163,614 |
| Gain on disposal of a subsidiary and a jointly controlled entity | 16,206 |
| Net consideration | 179,820 |
| Satisfied by cash | |
| Consideration | 180,000 |
| Direct cost of disposal | (180) |
| Net consideration | 179,820 |

An analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary and a jointly controlled entity is as follows:

| | 2007 |
|---|---|
| | *HK$'000* |
| Net consideration | 179,820 |
| Cash and bank balances disposed | (20,912) |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary and a jointly controlled entity | 158,908 |

**34. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group is exposed to market risks through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the Board and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns.

The most significant financial risks to which the Group is exposed are described below. A summary of the Group's financial assets and liabilities by category is shown in Note 34.7.

**34.1 Foreign currency risk**

Most of the Group's transactions are carried out in HKD. Exposures to currency exchange rates is mainly arise from the Group's investments, which are primarily denominated in Japanese Yen, Malaysian Ringgit, New Taiwan Dollars, US Dollars, Renminbi and Australian Dollars.

Foreign currency denominated financial assets and liabilities, translated into HKD at the closing rate, are as follows:

| | **2008** | | | | | |
|---|---|---|---|---|---|---|
| | *HK$'000* | | | | | |
| | *JP¥* | *MYR* | *NT$* | *US$* | *AU$* | *RMB* |
| Financial assets | 4,867 | 28,375 | 6,581 | 87,338 | 4,372 | 2,698 |
| Financial liabilities | – | – | – | – | – | – |
| Short-term exposure | 4,867 | 28,375 | 6,581 | 87,338 | 4,372 | 2,698 |
| Financial assets | – | – | – | 29,653 | – | 6,028 |
| Financial liabilities | – | – | – | – | – | – |
| Long-term exposure | – | – | – | 29,653 | – | 6,028 |

| | **2007** | | | | | |
|---|---|---|---|---|---|---|
| | *HK$'000* | | | | | |
| | *JP¥* | *MYR* | *NT$* | *US$* | *AU$* | *Others* |
| Financial assets | 49,514 | 64,243 | 27,079 | – | 5,647 | – |
| Financial liabilities | – | – | – | (3,900) | – | – |
| Short-term exposure | 49,514 | 64,243 | 27,079 | (3,900) | 5,647 | – |
| Financial assets | – | – | – | 15,617 | – | 593 |
| Financial liabilities | – | – | – | – | – | – |
| Long-term exposure | – | – | – | 15,617 | – | 593 |

The following table indicates the approximate change in the Group's profit after tax (and retained earnings) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates, Japanese Yen, Malaysian Ringgit and New Taiwan Dollars, to which the Group has significant exposure at the balance sheet date.

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on profit after tax and retained earnings** | **Effect on other components of equity** | **Increase/ (decrease) in foreign exchange rates** | **Effect on profit after tax and retained earnings** | **Effect on other components of equity** |
| | | *HK$'000* | *HK$'000* | | *HK$'000* | *HK$'000* |
| JP¥ | 5% | 203 | – | 10% | 4,085 | – |
| JP¥ | (5%) | (203) | – | (10%) | (4,085) | – |
| MYR | 3% | 711 | – | 4% | 2,120 | – |
| MYR | (3%) | (711) | – | (4%) | (2,120) | – |
| NT$ | 5% | 275 | – | 3.5% | 782 | – |
| NT$ | (5%) | (275) | – | (3.5%) | (782) | – |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance date and had been applied to each of the Group's entities' exposure to currency risk for the non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group's entities' profit after tax and equity measured in the respective functional currencies, with the estimated changes then translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

**34.2 Interest rate risk**

The Group is exposed to changes in market interest rates through its deposits at floating interest rate, which are subject to variable interest rates.

The following table indicates the approximate change in the Group's profit after tax (and retained earnings) in response to reasonably possible changes in the interest rate, to which the Group has significant exposure at the balance sheet date.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in interest rates** | **Effect on profit after tax and retained earnings** | **Increase/ (decrease) in interest rates** | **Effect on profit after tax and retained earnings** |
| | | *HK$'000* | | *HK$'000* |
| Deposits | 0.5% | 873 | 1% | 5,060 |
| Deposits | (0.5%) | (873) | (1%) | (5,060) |

At 31st December, 2008, it is estimated that a general increase/decrease of 0.5% in interest rates, with all other variables held constant.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 0.5% increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

**34.3 Equity price risk**

The Group is exposed to equity price changes arising from equity investments classified as trading securities and available-for-sale financial assets. Other than unquoted securities held for strategic purposes, all of these investments are listed.

The Group's listed investments are primarily listed on the stock exchanges of Hong Kong, Kuala Lumpur, Tokyo, Taiwan and Australia. Listed investments held in the available-for-sale portfolio have been chosen based on their long term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

The following table indicates the approximate change in the Group's profit after tax (and retained earnings) and other components of the consolidated equity in response to the reasonably possible changes in the relevant stock market prices, to which the Group has significant exposure at the balance sheet date.

*Listed securities / unlisted structured financial products*

In response to the reasonably possible change in the market price of the listed securities, the Group's investment in listed securities excluding derivatives has the following exposures:

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Increase/ (decrease) in securities market price/index** | **Effect on profit after tax and retained earnings** | **Effect on other components of equity** | **Increase/ (decrease) in securities market price** | **Effect on profit after tax and retained earnings** | **Effect on other components of equity** |
| | | *HK$'000* | *HK$'000* | | *HK$'000* | *HK$'000* |
| Hong Kong market | 10% | 23,883 | 1,596 | 10% | 10,711 | 3,849 |
| Hong Kong market | (10%) | (23,883) | (1,596) | (10%) | (10,711) | (3,849) |
| Taiwan market | 10% | 1,048 | – | 10% | 2,234 | – |
| Taiwan market | (10%) | (1,048) | – | (10%) | (2,234) | – |
| Japan market | 10% | 214 | – | 10% | 570 | – |
| Japan market | (10%) | (214) | – | (10%) | (570) | – |
| Australia market | 10% | 437 | – | 10% | 465 | – |
| Australia market | (10%) | (437) | – | (10%) | (465) | – |
| Malaysia market | 10% | 2,838 | – | 10% | 5,300 | – |
| Malaysia market | (10%) | (2,838) | – | (10%) | (5,300) | – |
| US market | 10% | 1,486 | – | 10% | 322 | – |
| US market | (10%) | (1,486) | – | (10%) | (322) | – |

*Unlisted warrants*

In response to the reasonably possible change in the market price of the J. Bridge shares, the Group's investment in unlisted warrants has the following exposures:

| 2008 | | | 2007 | | |
|---|---|---|---|---|---|
| **Increase/ (decrease) in underlying share's price** | **Effect on profit after tax and retained earnings** *(Note)* *HK$'000* | **Effect on other components of equity** *HK$'000* | **Increase/ (decrease) in underlying share's price** | **Effect on profit after tax and retained earnings** *(Note)* *HK$'000* | **Effect on other components of equity** *HK$'000* |
| 10% | 2,062 | – | 10% | 13,820 | – |
| (10%) | (2,062) | – | (10%) | (13,820) | – |

*Equity forward contracts*

In response to the reasonably possible change in the market price of the underlying shares, the Group's investment in equity forward contracts has the following exposures:

| 2008 | | | 2007 | | |
|---|---|---|---|---|---|
| **Increase/ (decrease) in underlying shares' prices** | **Effect on profit after tax and retained earnings** *(Note)* *HK$'000* | **Effect on other components of equity** *HK$'000* | **Increase/ (decrease) in underlying shares' prices** | **Effect on profit after tax and retained earnings** *(Note)* *HK$'000* | **Effect on other components of equity** *HK$'000* |
| 10% | 4,121 | – | 10% | 16,303 | – |
| (10%) | (4,359) | – | (10%) | (24,163) | – |

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market price or other relevant risk variables had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual balance sheet date.

In response to the volatile stock market subsequent to the year end date of 31st December, 2008, the Group's investment in equity forward contracts has the following exposures:

| 2008 | | | 2007 | | |
|---|---|---|---|---|---|
| Increase/ (decrease) in underlying shares' prices | Effect on profit after tax and retained earnings *(Note)* | Effect on other components of equity | Increase/ (decrease) in underlying shares' prices | Effect on profit after tax and retained earnings *(Note)* | Effect on other components of equity |
| | *HK$'000* | *HK$'000* | | *HK$'000* | *HK$'000* |
| 30% | 10,125 | – | 30% | 33,186* | – |
| (30%) | (13,077) | – | (30%) | (98,305) | – |
| 20% | 8,242 | – | 20% | 28,453* | – |
| (20%) | (8,718) | – | (20%) | (65,536) | – |

* *When the underlying shares' prices increased by 30% and 20%, some of them triggers the knock-out prices and the contracts will be terminated. This analysis only shows the effect up to the knock-out prices.*

*Note:* The financial effect resulting from changes in underlying shares' prices represented the theoretical change in fair value of all underlying equity securities under the outstanding equity forward contracts and the warrant contract as if all these equity securities were acquired/ exercised as at 31st December, 2008. These pro forma information is for illustrative purposes only and is not necessarily an indication of the fair value change in these equity securities and results of operation of the Group that actually would have been achieved had the acquisition of these equity securities been completed at the balance sheet date, nor is it intended to be a projection of future result. The analysis is performed on the same basis for 2007.

**34.4 Credit risk**

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised in Note 34.7.

The Group continuously monitors defaults of customers and other counterparties, identifies either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality.

Saved as disclosed in Note 21, none of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality credit ratings.

**34.5 Liquidity risk**

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for 360-day lookout period are identified monthly.

The Group maintains cash and marketable securities to meet its liquidity requirements for up to 30-days periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at 31st December, 2008 and 2007, the Group's financial liabilities have contractual maturities which are summarised below:

| | **Current** | | **Non-current** | |
|---|---|---|---|---|
| | **Within 6 months** | **6 to 12 months** | **1 to 5 years** | **Later than 5 years** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 31st December, 2008 | | | | |
| Other payables | 4,347 | – | – | – |
| Financial liabilities at fair value through profit or loss | 57,517 | 3,627 | – | – |
| | 61,864 | 3,627 | – | – |
| At 31st December, 2007 | | | | |
| Other payables | 21,683 | – | – | – |
| Financial liabilities at fair value through profit or loss | 3,900 | – | – | – |
| | 25,583 | – | – | – |

**34.6 Fair values**

All financial instruments are carried at amounts not materially different from their fair values as at 31st December, 2008 and 2007.

### 34.7 Summary of financial assets and liabilities by category

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Non-current assets | | |
| Available-for-sale financial assets | 75,756 | 54,703 |
| Held-to-maturity investments | 7,648 | – |
| | 83,404 | 54,703 |
| Current assets | | |
| Loans and receivables: | | |
| – Trade and other receivables | 77,745 | 1,037 |
| – Other restricted deposits paid | 20,049 | 24,014 |
| – Cash and cash equivalents | 135,159 | 652,174 |
| Available-for-sale financial assets | – | 1 |
| Financial assets at fair value through profit or loss | 305,276 | 286,635 |
| | 538,229 | 963,861 |
| Current liabilities | | |
| Financial liabilities measured at amortised cost: | | |
| – Other payables and accrued expenses | 4,347 | 21,683 |
| Financial liabilities at fair value through profit or loss | 18,089 | 3,900 |
| | 22,436 | 25,583 |

## 35. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are:

(i) to ensure the Group's ability to continue as a going concern; and

(ii) to provide an adequate return to Shareholders.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher Shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group sets the amount of equity capital in proportion to its overall financing structure. The capital-to-overall financing ratio at balance sheet date was as follows:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Capital | | |
| Total equity | 598,172 | 991,771 |
| Overall financing | | |
| Borrowings | – | – |
| Capital-to-overall financing ratio | 1 : 0 | 1 : 0 |

**36. POST BALANCE SHEET EVENTS**

Save as those disclosed elsewhere in the financial statements, on 14th February, 2009, the Group announced its proposals to raise approximately not less than HK$181.5 million, after expenses, by way of rights issue of not less than 1,869,172,517 new ordinary shares at a subscription price of HK$0.10 per share on the basis of one new ordinary share for every one existing ordinary share held on 24 March 2009. Successful applicants of the new shares will receive one warrant for every five new shares taken up. The new shares other than those subject to a subscription undertaking with a substantial shareholder were fully underwritten. The proposal was authorised by the Shareholders at an extraordinary general meeting on 24th March, 2009. Details of the rights issue were disclosed in the prospectus of the Company dated 26th March, 2009.

## 3. INDEBTEDNESS STATEMENT

As at the close of business on 31st March, 2009, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this composite offer document:

1. the Group had no outstanding borrowings and indebtedness in the nature of borrowing;

2. deposit of approximately HK$11.1 million was paid to a financial institution to secure settlement of the equity forward contracts; and

3. the Company has given guarantee to a financial institution to secure credit facilities available to a wholly-owned subsidiary in the amount not exceeding US$20 million (equivalent to approximately HK$156 million), and facilities were not utilized.

Save as disclosed above and apart from intra-group liabilities, the Group did not have outstanding as at the close of business on 31st March, 2009 any loan capital issued or agreed to be issued, bank overdrafts, debt securities or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

## 4. MATERIAL CHANGE

Save for the Rights Issue, there is no material changes in the financial or trading position or outlook of the Group subsequent to 31st December, 2008, being the date to which the latest audited consolidated financial statements of the Group were made up.

## 1. RESPONSIBILITY STATEMENT

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this composite offer document relating to the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this composite offer document by the Company have been arrived at after due and careful consideration and there are no other facts not contained in this composite offer document, the omission of which would make any statement in this composite offer document misleading.

The directors of the Offeror and AGL jointly and severally accept full responsibility for the accuracy of information contained in this composite offer document (other than those relating to the Company) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this composite offer document (other than those expressed by the Company) have been arrived at after due and careful consideration and there are no other facts not contained in this composite offer document the omission of which would make any statement in this composite offer document misleading.

## 2. SHARE CAPITAL

### a. Shares

The authorised and issued Shares of the Company as at the Latest Practicable Date were as follows:

| | | |
|---|---|---|
| *Authorised* | | *HK$* |
| 7,000,000,000 | Shares as at the Latest Practicable Date | 700,000,000.0 |
| *Issued and fully paid or credited as fully paid* | | |
| 1,869,172,517 | Shares as at 31st December, 2008, being the date of the end of the financial year of the Company | 186,917,251.7 |
| 1,869,172,517 | Shares issued under the Rights Issue | 186,917,251.7 |
| 3,738,345,034 | Shares as at the Latest Practicable Date | 373,834,503.4 |

All the issued Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital.

Since 31st December, 2008, other than the Rights Issue as disclosed above, no Share was either issued or repurchased.

**b. Warrants**

Since 31st December, 2008, the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date, no Shares had been issued upon exercise of the Warrants. Details of the outstanding Warrants as at the Latest Practicable Date were as follows:

| Type | Number | Issue date | Underlying Shares | Exercise period | Exercise price *(HK$)* | Premium received |
|---|---|---|---|---|---|---|
| 2009 Warrants | 373,833,869 | 29th May, 2008 | 373,833,869 | 29th May, 2008 to 28th May, 2009 | 0.33 | Nil |
| 2011 Warrants | 373,834,503 | 23rd April, 2009 | 373,834,503 | 23rd April, 2009 to 22nd April, 2011 | 0.10 | Nil |

Saved as disclosed above, the Company does not have other class of securities, outstanding options, derivatives, warrants or other securities which are convertible or exchangeable into Shares.

## 3. MARKET PRICES

The table below shows the closing prices per Share (after taking into account the adjustments as a result of the Rights Issue) on the Stock Exchange on (i) the Latest Practicable Date; (ii) 15th April, 2009, being the last trading day for the Shares before the Announcement Date; and (iii) the last trading day of each of the calendar months during the Relevant Period.

| Date | Closing Price *HK$* |
|---|---|
| 31st October, 2008 | 0.089 |
| 28th November, 2008 | 0.092 |
| 31st December, 2008 | 0.120 |
| 30th January, 2009 | 0.092 |
| 27th February, 2009 | 0.090 |
| 31st March, 2009 | 0.090 |
| 15th April, 2009 | 0.098 |
| 30th April, 2009 | 0.100 |
| Latest Practicable Date | 0.126 |

The highest and lowest closing price per Share (after taking into account the adjustments as a result of the Rights Issue) as quoted on the Stock Exchange during the Relevant Period were HK$0.133 per Share on 9th January, 2009 and HK$0.062 per Share on 20th November, 2008 respectively.

## 4. DISCLOSURE OF INTERESTS AND DEALINGS

a. As at the Latest Practicable Date, the interests of the Offeror and parties acting in concert with it (including the directors of the Offeror and AGL) in the Company are as follows:

| Name of Shareholders | Capacity | Number of Shares | % of issued Shares | Number of 2009 Warrants | % of total 2009 Warrants | Number of 2011 Warrants | % of total 2011 Warrants |
|---|---|---|---|---|---|---|---|
| Offeror | Beneficial owner | 2,045,509,674 | 54.72% | 100,874,360 | 26.98% | 308,227,574 | 82.45% |
| AGL *(Note)* | Interest of controlled corporation | 2,045,509,674 | 54.72% | 100,874,360 | 26.98% | 308,227,574 | 82.45% |
| Lee and Lee Trust *(Note)* | Interest of controlled corporation | 2,045,509,674 | 54.72% | 100,874,360 | 26.98% | 308,227,574 | 82.45% |

*Note:* The Offeror is an indirect wholly-owned subsidiary of AGL, which is, therefore, a party acting in concert with the Offeror. AGL is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Lee Seng Hui and Ms. Lee Su Hwei, directors of AGL, together with Mr. Lee Seng Huang, are the trustees of Lee and Lee Trust, being a discretionary trust which indirectly holds approximately 44.53% of the total issued shares in AGL as at the Latest Practicable Date.

Save for the interests set out above, the Offeror and parties acting in concert with it (including the directors of the Offeror and AGL) did not hold other Shares and relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

b. During the Relevant Period, save for the Offeror taking up (i) the 1,541,137,874 Rights Shares at the subscription price of HK$0.10 per Share and (ii) the 308,227,574 2011 Warrants at nil consideration issued under the Rights Issue completed on 17th April, 2009, none of the Offeror and parties acting in concert with it (including the directors of the Offeror and AGL) had dealt in Shares and relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

c. Save for the interests set out below, no other director of the Company was interested in Shares and any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company as at the Latest Practicable Date:

| Name of Directors | Capacity | Number of Shares | % of issued Shares | Number of 2009 Warrants | % of total 2009 Warrants | Number of 2011 Warrants | % of total 2011 Warrants |
|---|---|---|---|---|---|---|---|
| Lee Yip Wah, Peter | Beneficial owner | 3,100,000 | 0.08% | 310,000 | 0.08% | 310,000 | 0.08% |
| Albert Ho | Beneficial owner | 2,080,000 | 0.06% | 200,000 | 0.05% | 216,000 | 0.06% |

d. During the Relevant Period, Mr. Lee Yip Wah, Peter took up 1,550,000 Right Shares and 310,000 2011 Warrants, and Mr. Albert Ho took up 1,080,000 Right Shares and 216,000 2011 Warrants, under the Rights Issue which was completed on 17th April, 2009.

   Save for the above, none of the directors of the Company had dealt in Shares and the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

e. As at the Latest Practicable Date, the Company was not interested in any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Offeror.

f. During the Relevant Period, the Company had not dealt in any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Offeror.

g. As at the Latest Practicable Date, none of the directors of the Company was interested in any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Offeror.

h. During the Relevant Period, none of the directors of the Company had dealt in any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Offeror.

i. As at the Latest Practicable Date, none of the subsidiaries of the Company, pension fund of the Company or any of its subsidiaries, or advisers to the Company as specified in class (2) of the definition of associate under the Takeovers Code (but excluding exempt principal traders) had any shareholdings in the Company. During the Relevant Period, none of the parties referred to in this paragraph had dealt in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

j. During the Relevant Period, no fund manager (other than exempt fund managers) connected with the Company managing on a discretionary basis had dealt in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

**5. OTHER ARRANGEMENTS**

a. As at the Latest Practicable Date, no person has irrevocably committed to accept or reject the Offers.

b. As at the Latest Practicable Date, the directors of the Company have no intention as to whether to accept or reject the Offers, in respect of their own beneficial shareholdings and warrantholdings.

c. No relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company to be acquired in pursuance of the Offers will be transferred, charged or pledged to any other persons respectively.

d. There is no person with whom the Offeror or party acting in concert with it has arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.

e. There is no person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes 1, 2, 3 and 4 of the definition of associate.

f. The Offeror and parties acting in concert with it as well as the Company and its directors have not borrowed or lent any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

g. There is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any party acting in concert with it and any of the existing or recent directors of the Company or any existing or recent Shareholders having any connection with or dependence upon the Offers.

h. There is no agreement or arrangement between any director of the Company and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers.

i. No benefit will be given to any director of the Company as compensation for loss of office or otherwise in connection with the Offers.

j. There is no agreement or arrangement to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offers.

k. There is no material contract entered into by the Offeror in which any director of the Company has a material personal interest.

## 6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the directors of the Company had any service contracts in force with the Company, its subsidiaries or associated companies which (i) had been entered into or amended within six months before the commencement of the offer period (including both continuous and fixed term contracts; (ii) or are continuous contracts with a notice period of twelve months or more; or (iii) are fixed term contracts with more than twelve months to run irrespective of the notice period.

## 7. MATERIAL CONTRACTS

Save as disclosed below, none of the members of the Group entered into any material contracts, not being contracts entered into in the ordinary course of business, during the two years before commencement of the offer period and up to the Latest Practicable Date:

a. a share subscription agreement dated 25th July, 2007 entered into between the Company and Sun Hung Kai & Co. Limited ("SHK"), Sun Hung Kai Venture Capital Limited ("SHKVC") and Best Delta International Limited ("Best Delta"), pursuant to which the Company agreed to issue and SHK, SHKVC and Best Delta agreed to subscribe for no more than 338 million Shares at the subscription price of HK$0.66 per Share. Net proceeds from the subscription amounted to approximately HK$214 million.

b. a repurchase agreement dated 16th September, 2007 entered into between the Company, ASM Asia Recovery (Master) Fund and ASM Hudson River Fund. Pursuant to the agreement, the Company agreed to repurchase and the funds agreed to sell 160,000,000 Shares, representing approximately 7.88% of the then total issued share capital of the Company) at a price of HK$0.48 per Share in an off-market manner. The consideration was approximately HK$76.8 million. The transaction was completed on 13th November, 2007;

c. a warrant instrument by way of deed poll dated 23rd May, 2008 executed by the Company. Accordingly, relevant Shareholders whose names appear on the register of members of the Company on 23rd May, 2008 received bonus warrants (that is, 2009 Warrants) on the basis of one bonus warrant for every five existing Shares held. On the basis of 1,869,171,989 Shares, 373,834,397 2009 Warrants were issued to the relevant Shareholders on 29th May, 2008;

d. an underwriting agreement dated 13th February, 2009 entered into between the Company and Get Nice Securities Limited (being the underwriter) in relation to the Rights Issue. The commission paid to Get Nice Securities Limited was approximately HK$3.4 million, on the basis of 2.5% of the aggregate amount underwritten. The underwriting agreement became unconditional on 17th April, 2009; and

e. a warrant instrument by way of deed poll dated 23rd April, 2009 executed by the Company. Accordingly, relevant Shareholders who had subscribed for Rights Shares received bonus warrants (that is, 2011 Warrants) on the basis of one bonus warrant for every five Rights Shares subscribed. On the basis of 1,869,172,517 Rights Shares in issue, 373,834,503 2011 Warrants were issued to the relevant Shareholders on 23rd April, 2009.

## 8. LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the directors of the Company which is pending or threatened against any member of the Group.

## 9. CONSENTS

YMIM and Centurion have given and have not withdrawn their written consent to the issue of this composite offer document with the inclusion herein of their opinions and/or letters, and references to their names, opinion or letters in the form and context in which they respectively appear.

## 10. GENERAL

a. The principal place of business of the Offeror in Hong Kong, and the registered office of AGL is 22nd Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

b. The directors of the Offeror are Mr. Lo King Yau, Edwin and Mr. Li Chi Kong.

c. The board of directors of AGL comprises nine directors of which Mr. Lee Seng Hui (Chief Executive), Mr. Lo King Yau, Edwin and Mr. Mak Pak Hung are executive directors; Mr. Arthur George Dew (Chairman) and Ms. Lee Su Hwei are non-executive directors; and Mr. Wong Po Yan, Mr. David Craig Bartlett, Mr. John Douglas Mackie and Mr. Alan Stephen Jones are independent non-executive directors.

d. The registered office of YMIM is Room 1901B, 19th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

e. The registered office of Centurion is 7th Floor, Duke Wellington House, 14 to 24 Wellington Street, Central, Hong Kong.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (public holidays excepted) at (i) the registered office of YMIM, the financial adviser to the Offeror, at Room 1901B, 19th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong; (ii) on the website of the Securities and Futures Commission of Hong Kong (http://www.sfc.hk); and (iii) the website of the Company (http://www.ymi.com.hk) when the Offers remain open for acceptance:

a. the memorandum and articles of association of the Company;

b. the memorandum and articles of association of the Offeror;

c. the letter from YMIM, the text of which is set out on pages 5 to 10 of this composite offer document;

d. the letter from the Board, the text of which is set out on pages 11 to 14 of this composite offer document;

e. the letter of recommendation from Independent Board Committee, the text of which is set out on page 15 of this composite offer document;

f. the letter from Centurion, the text of which is set out on pages 16 to 38 of this composite offer document;

g. the annual report of the Company for the year ended 31st December, 2008;

h. the letters of consent referred to in the paragraph "9. Consents" in this appendix; and

i. the material contracts referred to in the paragraph "7. Material Contracts" in this appendix.