

Interim Report 2007



YUGANG
YUGANG INTERNATIONAL LIMITED
Stock Code: 613

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Corporate Information

Executive Directors

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

Non-Executive Director

Mr. Lee Ka Sze, Carmelo

Independent Non-Executive Directors

Mr. Luk Yu King, James
Mr. Wong Yat Fai
Mr. Ng Kwok Fu

Audit Committee

Mr. Luk Yu King, James
Mr. Lee Ka Sze, Camerlo
Mr. Wong Yat Fai
Mr. Ng Kwok Fu

Remuneration Committee

Mr. Cheung Chung Kiu
Mr. Wong Yat Fai
Mr. Ng Kwok Fu

Secretary

Albert T.da Rosa, Jr.

Auditors

Ernst & Young

Qualified Accountant

Mr. Leung Wai Fai

Bankers

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

Solicitors

Bermuda:
Conyers Dill & Pearman

Hong Kong:
Woo Kwan Lee & Lo
Cheung, Tong & Rosa

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

Share Registrar and Transfer Office in Hong Kong

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

Registered Office

Clarendon House
Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong

Rooms 3301-3307
China Resources Building
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Wanchai
Hong Kong

Website Address

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

Stock Code

613

Management Discussion and Analysis

The board (“Board”) of directors (“Directors”) of Yugang International Limited (“Company”) is pleased to report the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the six months ended 30 June 2007. The Group has achieved a satisfactory financial performance for the period.

FINANCIAL RESULTS

During the six months ended 30 June 2007, profit attributable to equity shareholders of the Company was HK\$260.3 million, representing an increase of 107.6% from HK\$125.4 million of the last corresponding period. Earnings per share for the period were 2.89 HK cents, compared with 1.44 HK cents in the last corresponding period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Property Investment Business

The Group has substantial property investment in Hong Kong and the PRC. The flagship of Hong Kong market is held through a major associate, Y.T. Realty Group Limited (“Y.T. Realty”), a company the shares of which are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Y.T. Realty currently holds Century Square and Prestige Tower, all are commercial buildings located in the core of Central District and Tsimshatsui respectively. Having a favorable rise in rent from tenancy renewal and fresh letting cases, Y.T. Realty recorded a satisfactory growth in rental income for the period under review. The gross rental income of Y.T. Realty for the period was HK\$51.1 million, representing an increase of 20.8% from the last corresponding period.

The Group’s investments in the PRC property market are held indirectly through its 14.08% investment in C C Land Holdings Limited (“C C Land”), a company the shares of which are listed on the Stock Exchange. C C Land is principally engaged in property development business in the Western China and focuses on mid to high-end properties development in Chengdu and Chongqing, the PRC. The projects under planning include luxury hotels, investment grade shopping malls and offices, and residential properties etc.

Infrastructure Business

The Group has substantial interest in The Cross-Harbour (Holdings) Ltd (“Cross Harbour”) which is held through Y.T. Realty. Cross Harbour is a company the shares of which are listed on the Stock Exchange. Cross Harbour currently owns significant interests in the Western Harbour Tunnel Limited. During the period under review, the toll revenue of tunnel operation increased satisfactorily due to the rising of daily traffic throughput of the Western Harbour Tunnel by 10% to about 46,900 vehicles journeys. The net profit after tax and minority interests of Cross Harbour was HK\$108.0 million for the period, representing an increase of 26.5% from the last corresponding period.

Treasury Investment

The treasury investment of the Group recorded a favorable return, being benefited by satisfactory performance of financial market for the first half of 2007. The Group’s segmental result of the treasury investment was up 275% to HK\$211.1 million from the last corresponding period.

Management Discussion and Analysis

PRC Trading Business

The turnover of PRC trading was HK\$52.6 million for the period, representing an increase of HK\$32.3 million or 159% from the last corresponding period. The Group has slightly increased its resources in the PRC trading business when an increasing demand for metal commodities was noted during the period.

PROSPECT

The Group remains cautiously optimistic about the economic development of Hong Kong SAR. With the extension measures of Qualified Domestic Institutional Investors (QDII) and an increasing infrastructural links between Hong Kong SAR and Mainland China, it will bring further economic growth to Hong Kong SAR. Local consumer confidence will be strengthened and a wider spectrum of business segments such as finance and properties, trading, retails, infrastructure and logistic, where the Group has participation will overall be benefited.

The Group is well prepared to capture any emerging opportunity for any strategic acquisitions that will broaden the Group's asset base with steady income stream. It has been the Group's established policy for corporate development and its key focus on maintaining growth with sound financial and management capabilities.

FINANCIAL REVIEW

Financial performance

During the six months ended 30 June 2007, the Group's revenue increased significantly by 226% to HK\$178.8 million. Profit attributable to equity shareholders of the Company recorded an increase of 107.5% to HK\$260.3 million. Earnings per share increased by 100.7% to 2.89 HK cents.

As the Group's percentage of interest in C C Land has been reduced to below 20% since November last year, details of which was set out in the Chairman's Statement of 2006 annual report, the Group ceased to consolidate the operating results of C C Land and discontinued the operations of packaging and luggage businesses thereafter. The Group has re-presented the consolidated income statement for the six months ended 30 June 2006 to reflect the results of continuing operations and discontinued operations.

Financial Position, Liquidity and Financial Resources

As at 30 June 2007, the Group had a high level of liquid assets including cash and cash equivalents of HK\$280.1 million and investment securities of HK\$731.3 million totaling HK\$1,011.4 million, representing HK\$0.112 per ordinary share and 26.1% of the consolidated net asset value. The Group maintained a very strong liquidity position as indicated by a high current ratio of 14.5 and a low gearing ratio of 0.03%, which is defined as long-term liabilities to shareholders' equity. In addition, the Group obtained sufficient banking facilities to meet the foreseeable funding needs for working capital and capital expenditure.

As at 30 June 2007, the Group did not have any bank borrowings or material contingent liabilities.

As at 30 June 2007, total assets of the Group increased to HK\$3,962.2 million whereas total liabilities of the Group decreased to HK\$81.7 million. The equity attributable to the Company's shareholders was HK\$3,880.5 million, representing an increase of 77.7% from the last corresponding balance sheet date of 30 June 2006. The Group's tangible net asset value per share was HK\$0.43 as at 30 June 2007 (HK\$0.25 as at 30 June 2006), up 72%.

Management Discussion and Analysis

Capital Structure

The Company has a convertible note with an outstanding principal amount of HK\$25,895,000 as at 30 June 2007. The holder of the convertible note is entitled to exercise the conversion rights attaching to the convertible note at the conversion price of HK\$0.089 per share during the period from 1 August 2006 to 31 July 2007. On 31 July 2007, the rights attaching to the convertible note was fully exercised, resulting in a new issue of 290,955,056 ordinary shares of the Company.

Exchange Risk

Except that the Group's securities investment was denominated in foreign currencies which representing approximately 4.4% of the Group's net asset, the Group's major sources of income, expenses, sales and purchases of goods, major assets and bank deposits were denominated in Hong Kong dollars and US dollars. Hence the Group's exposure to foreign exchange risk is insignificant.

Pledge of Assets

As at 30 June 2007, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$57,848,000 and time deposits of approximately HK\$9,020,000 as securities for general banking facilities granted to the Group.

Human Resources Practices

The Group's total number of employees was 37 as at 30 June 2007.

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

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

Share Options

No share option was granted during the six months ended 30 June 2007 under the share option scheme adopted by the Company on 29 April 2005 and there was no outstanding option at the beginning or at the end of the period.

Significant Investments

As at 30 June 2007, the Group owned significant investment in C C Land which was regarded as available-for-sale with a fair value of HK\$1,700.9 million whereas Y. T. Realty was regarded as a long-term strategic investment with a carrying value of HK\$957.7 million.

Corporate Governance and Other Information

CORPORATE GOVERNANCE

The Board is committed to maintaining good corporate governance. Throughout the accounting period for the six months ended 30 June 2007, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing The Listing of Securities on the Stock Exchange (the "Listing Rules").

On 26 July 2007, Mr. Wong Wai Kwong David ("Mr. Wong") resigned as an independent non-executive Director and a member of the audit committee of the Company ("Audit Committee"). After Mr. Wong's resignation, the number and qualification of independent non-executive Director and the composition of the Audit Committee failed to meet the requirements under the Listing Rules.

On 10 September 2007, the Board appointed Mr. Luk Yu King, James ("Mr. Luk") as an independent non-executive Director and a member of the Audit Committee. Upon the appointment of Mr. Luk, the number and qualification of independent non-executive Directors and the composition of the Audit Committee met the requirements under Rule 3.10 and 3.21 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Following specific enquiry by the Company, all Directors have confirmed that they have, throughout the six months ended 30 June 2007, complied with the required standard set out in the Model Code and the Directors Securities Dealings Code.

AUDIT COMMITTEE

Pursuant to 3.21 of the Listing Rules, the Company has established an Audit Committee comprising all non-executive Directors. The Audit Committee has discussed with the management and the external auditors on the accounting principles and policies adopted by the Company, and has reviewed the Company's interim financial statements for the six months ended 30 June 2007.

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

As at 30 June 2007, the interests and short positions of the Directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interests in ordinary shares of the Company

Name of Director	Nature of interest	Number of ordinary shares held	Percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (note 1)	3,755,434,684	41.66
	Personal	53,320,000	0.59
Mr. Zhang Qing Xin	Personal	13,600,000	0.15
Mr. Lam Hiu Lo	Personal	41,800,000	0.46
Mr. Liang Kang	Personal	30,000,000	0.33

(ii) Interest in the convertible note of the Company

Name of Director	Nature of interest	Convertible note held HK\$	Number of underlying shares held	Percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (note 2)	25,895,000	290,955,056	3.23

(iii) Interests in shares and underlying shares of associated corporations

Name of Director	Name of associated corporation	Relationship with the Company	Shares	Nature of interest	Number of shares held	Percentage of associated corporation's issued share capital
Mr. Cheung Chung Kiu	Y.T. Realty Group Limited	Associate	Ordinary shares	Corporate (note 3)	273,000,000	34.14
Mr. Ng Kwok Fu	Y.T. Realty Group Limited	Associate	Ordinary shares	Personal and family	90,000	0.01

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

Notes:

- (1) Out of the 3,755,434,684 shares, 3,194,434,684 shares are held by Chongqing Industrial Limited ("Chongqing") and 561,000,000 shares are held by Timmex Investment Limited ("Timmex").

Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have 35%, 30%, 5% and 30% equity interests in Chongqing respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.

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

- (2) The convertible note is held by Timmex. Pursuant to the terms of the convertible note, the remaining number of underlying shares that can be converted under the convertible note is 290,955,056.

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

In addition to the above, some Directors have non-beneficial personal interests in certain subsidiaries hold for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30 June 2007, none of the Directors nor chief executives of the Company or their associates had registered an interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded in the register pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Discloseable Interests and Short Positions of Shareholders Under the SFO

As at 30 June 2007, the following persons had an interests of 5% or more of the issued share capital and the underlying shares of the Company which were recorded in the register as required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares/ underlying shares held	Percentage of the Company's issued share capital
Timmex	1	Corporate	851,955,056	9.45
Chongqing	2	Corporate	3,194,434,684	35.44
Palin Holdings Limited	3	Trustee of a Family Trust	3,194,434,684	35.44
Mr. Cheung Chung Kiu	4	Corporate and personal	<u>4,099,709,740</u>	45.48

Notes:

- (1) The interests represented the aggregate of 561,000,000 shares held and 290,955,056 shares issuable upon the exercise of the conversion rights attaching to the convertible note in the principal amount of HK\$25,895,000 held by Timmex, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%.
- (2) The voting rights of these shares are exercisable by Chongqing which is controlled by Mr. Cheung Chung Kiu.
- (3) Palin Holdings Limited is the trustee for Palin Discretionary Trust, a family discretionary trust, the beneficiaries included Mr. Cheung Chung Kiu and his family.
- (4) Out of the 4,099,709,740 shares, 3,194,434,684 shares and 561,000,000 shares are held by Chongqing and Timmex respectively whereas 53,320,000 shares are held by Mr. Cheung Chung Kiu personally. The remaining balance of 290,955,056 shares are the underlying shares interested by Timmex.

Save as disclosed above, as at 30 June 2007, none of the substantial shareholders had registered an interest or a short positions in the shares or underlying shares of the Company as required to be recorded in the register maintained by the Company pursuant to section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the six months ended 30 June 2007.

APPRECIATION

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

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

Hong Kong, 14 September 2007

Consolidated Income Statement

For the six months ended 30 June 2007

		For the six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000 (Restated)
		Notes	
CONTINUING OPERATIONS			
REVENUE	4	178,840	54,889
Cost of sales		(50,289)	(19,916)
Gross profit		128,551	34,973
Other income and gains	4	125,450	93,908
Administrative expenses		(35,124)	(33,026)
Other expenses	5	—	(11,644)
Finance costs	6	(2,558)	(6,032)
Share of results of:			
A jointly-controlled entity		—	(359)
Associates		66,243	53,777
PROFIT BEFORE TAX	7	282,562	131,597
Tax	8	(22,247)	(7,183)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		260,315	124,414
DISCONTINUED OPERATIONS			
Profit after tax for the period from discontinued operations	9	—	13,791
PROFIT FOR THE PERIOD		260,315	138,205
ATTRIBUTABLE TO:			
Equity holders of the Company		260,315	125,435
Minority interests		—	12,770
		260,315	138,205
EARNINGS PER SHARE ATTRIBUTABLE TO			
ORDINARY EQUITY HOLDERS OF THE COMPANY		11	
Basic			
— For profit for the period		2.89 HK cents	1.44 HK cents
— For profit from continuing operations		2.89 HK cents	1.34 HK cents
Diluted			
— For profit for the period		2.81 HK cents	1.36 HK cents
— For profit from continuing operations		2.81 HK cents	1.27 HK cents

Consolidated Balance Sheet

30 June 2007

	Notes	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	18,231	16,389
Investment properties		13,300	11,700
Prepaid land lease payments		97,523	72,934
Interests in associates		957,728	899,310
Convertible notes		—	47,416
Loans receivable		—	1,000
Available-for-sale investment		1,700,864	1,271,198
Other assets		12,360	12,360
Total non-current assets		2,800,006	2,332,307
CURRENT ASSETS			
Investments at fair value through profit or loss		731,340	731,366
Loans receivable		126,166	159,991
Trade debtors	13	6,453	7,574
Other debtors, deposits and prepayments		7,568	15,662
Prepaid land lease payments		1,552	1,347
Pledged time deposits		9,020	8,754
Time deposits		267,348	119,217
Cash and bank balances		12,763	10,786
Total current assets		1,162,210	1,054,697
CURRENT LIABILITIES			
Trade creditors	14	942	977
Tax payable		44,642	22,712
Other payables		3,080	3,076
Accrued expenses		5,774	21,588
Customers' deposits received		127	127
Interest-bearing bank borrowings		—	95,000
Convertible note	15	25,808	25,299
Total current liabilities		80,373	168,779
NET CURRENT ASSETS		1,081,837	885,918
TOTAL ASSETS LESS CURRENT LIABILITIES		3,881,843	3,218,225

Consolidated Balance Sheet

30 June 2007

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Deferred tax liabilities	1,294	977
Total non-current liabilities	1,294	977
Net assets	3,880,549	3,217,248
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	90,143	90,143
Reserves	2,432,003	2,029,017
Retained profits	1,358,403	1,098,088
Total equity	3,880,549	3,217,248

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Attributable to equity holders of the Company											
	Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Equity component of convertible notes	Other reserve (Unaudited) HK\$'000	Available-for-sale investment revaluation reserve	Retained profits (Unaudited) HK\$'000	Proposed final dividend	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
					of		for-sale					
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
At 1 January 2007	90,143	881,476*	760,799*	(419)*	2,819*	1,041*	356,258*	1,098,088	27,043*	3,217,248	—	3,217,248
Share of changes in other reserve of associates	—	—	—	—	—	363	—	—	—	363	—	363
Fair value changes of an available-for-sale investment	—	—	—	—	—	—	429,666	—	—	429,666	—	429,666
Profit for the period	—	—	—	—	—	—	—	260,315	—	260,315	—	260,315
Dividend paid (note 10)	—	—	—	—	—	—	—	—	(27,043)	(27,043)	—	(27,043)
At 30 June 2007	90,143	881,476*	760,799*	(419)*	2,819*	1,404*	785,924*	1,358,403	—*	3,880,549	—	3,880,549
At 1 January 2006	87,243	858,931	760,799	(302)	5,407	1,559	—	344,208	26,173	2,084,018	209,306	2,293,324
Share of changes in other reserve of associates	—	—	—	—	—	316	—	—	—	316	—	316
Profit for the period	—	—	—	—	—	—	—	125,435	—	125,435	12,770	138,205
Dividend paid (note 10)	—	—	—	—	—	—	—	—	(26,173)	(26,173)	(8,383)	(34,556)
At 30 June 2006	87,243	858,931	760,799	(302)	5,407	1,875	—	469,643	—	2,183,596	213,693	2,397,289

* These reserve accounts comprise the consolidated reserves of HK\$2,432,003,000 (31 December 2006: HK\$2,029,017,000) in the interim consolidated balance sheet.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	322,314	(147,728)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(48,318)	21,352
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(123,888)	(19,416)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	150,108	(145,792)
Cash and cash equivalents at beginning of period	130,003	509,939
CASH AND CASH EQUIVALENTS AT END OF PERIOD	280,111	364,147
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	12,763	56,958
Non-pledged time deposits	267,348	307,189
	280,111	364,147

Notes to Condensed Consolidated Financial Statements

30 June 2007

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2007 were authorised for issue in accordance with a resolution of the Board on 14 September 2007.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The accounting policies and methods of computation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2006, except that the Group has in the current period applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA. The adoption of these new HKFRSs has had no significant impact on the Group’s condensed consolidated interim financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

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

HKAS 23 (revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions ²
HK(IFRIC)-Int 12	Service Concession Arrangements ³

¹ Effective for accounting periods beginning on or after 1 January 2009

² Effective for accounting periods beginning on or after 1 March 2007

³ Effective for accounting periods beginning on or after 1 January 2008

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

Notes to Condensed Consolidated Financial Statements

30 June 2007

3. SEGMENT INFORMATION

During the six months ended 30 June 2007, the Group comprised of the following operating segments:

- the trading of scrap metals and other materials;
- the treasury investment segment included the trading of securities, interests and dividend income from securities investment and interests income from the provision of financing services; and
- the property and other investment segment mainly comprised of rental income from investment properties and the holding of an available-for-sale investment.

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

(a) Business segments

The following tables present revenue and profit information regarding the Group's business segments for the six months ended 30 June 2007 and 2006, respectively.

For the six months ended 30 June 2007

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

Notes to Condensed Consolidated Financial Statements

30 June 2007

3. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

For the six months ended 30 June 2006 (Restated)

	Continuing operations				Discontinued operations			Consolidated (Unaudited) HK\$'000
	Trading of scrap metals and other materials (Unaudited) HK\$'000	Treasury investment (Unaudited) HK\$'000	Property and other investments (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Manufacture and sale of packaging products (Unaudited) HK\$'000	Manufacture and sale of luggage products (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	
Segment revenue:								
Revenue from external customers	20,315	34,574	—	54,889	151,900	221,677	373,577	428,466
Other revenue	—	—	1,460	1,460	—	—	—	1,460
Total revenue	20,315	34,574	1,460	56,349	151,900	221,677	373,577	429,926
Segment results	(1,676)	56,309	39,292	93,925	17,838	1,017	18,855	112,780
Unallocated expenses, net				(13,481)			(5,757)	(19,238)
Interest income on bank deposits				3,767			4,281	8,048
Finance costs				(6,032)			(929)	(6,961)
Share of results of:								
A jointly-controlled entity	—	—	(359)	(359)	—	—	—	(359)
Associates	—	—	53,777	53,777	—	—	—	53,777
Profit before tax				131,597			16,450	148,047
Tax				(7,183)			(2,659)	(9,842)
Profit for the period				124,414			13,791	138,205

Notes to Condensed Consolidated Financial Statements

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3. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following tables present revenue information regarding the Group's geographical segments for the six months ended 30 June 2007 and 2006, respectively.

	The PRC		North and South	European	Others	Consolidated
	Hong Kong	Elsewhere in the PRC	Americas	Union		
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June 2007						
Segment revenue:						
Revenue from						
external customers	126,278	52,562	—	—	—	178,840
Other revenue	13,094	—	—	—	—	13,094
Revenue from continuing operations	139,372	52,562	—	—	—	191,934
For the six months ended 30 June 2006 (Restated)						
Segment revenue:						
Revenue from						
external customers	81,261	20,315	192,663	109,378	24,849	428,466
Other revenue	1,460	—	—	—	—	1,460
	82,721	20,315	192,663	109,378	24,849	429,926
Attributable to discontinued operations	(46,687)	—	(192,663)	(109,378)	(24,849)	(373,577)
Revenue from continuing operations	36,034	20,315	—	—	—	56,349

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4. REVENUE, OTHER INCOME AND GAINS

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

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

	For the six months ended 30 June					
	2007			2006		
	Continuing operations (Unaudited) HK\$'000	Discontinued operations (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Continuing operations (Unaudited) HK\$'000	Discontinued operations (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Revenue						
Sale of goods	52,562	—	52,562	20,315	373,577	393,892
Gain on disposal of listed equity investments at fair value through profit or loss	113,788	—	113,788	17,996	—	17,996
Dividend income from listed investments	4,839	—	4,839	8,716	—	8,716
Interest income from convertible notes and loans receivable	7,351	—	7,351	7,862	—	7,862
Others	300	—	300	—	—	—
	178,840	—	178,840	54,889	373,577	428,466
Other income and gains						
Exchange gains	672	—	672	199	—	199
Gross rental income	382	—	382	1,460	—	1,460
Interest income on bank deposits	3,898	—	3,898	3,767	4,281	8,048
Gains on disposal of items in property, plant and equipment	110	—	110	68	14	82
Fair value gains, net:						
Investments at fair value through profit or loss	82,841	—	82,841	29,111	—	29,111
Convertible notes	22,789	—	22,789	2,303	—	2,303
Gain on disposal of subsidiaries	—	—	—	36,144	—	36,144
Gain on derecognition of investments at fair value through profit or loss	—	—	—	17,229	—	17,229
Gain arising from redemption of convertible note	—	—	—	1,333	—	1,333
Dividend income from an available-for-sale investment	12,712	—	12,712	—	—	—
Fair value gains on investment properties	1,600	—	1,600	1,930	—	1,930
Others	446	—	446	364	958	1,322
	125,450	—	125,450	93,908	5,253	99,161

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5. OTHER EXPENSES

	For the six months ended 30 June					
	2007			2006		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fair value losses on convertible notes, net	—	—	—	11,644	—	11,644
Allowance for doubtful debts, net	—	—	—	—	2,341	2,341
	—	—	—	11,644	2,341	13,985

6. FINANCE COSTS

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within one year	1,664	5,312
Interest on a convertible note (note 11)	894	1,649
	2,558	6,961
Attributable to discontinued operations (note 9)	—	929
Attributable to continuing operations reported in the consolidated income statement	2,558	6,032
	2,558	6,961

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Depreciation	1,272	6,370
Amortisation on prepaid land lease payments	739	1,509
Impairment of goodwill arising from acquisition of associates	—	1,900

Notes to Condensed Consolidated Financial Statements

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8. TAX

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

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Group:		
Hong Kong		
Charge for the period	21,930	9,842
Deferred tax charge	317	—
Total tax charge for the period	22,247	9,842
Tax charge attributable to discontinued operations (<i>note 9</i>)	—	2,659
Tax charge attributable to continuing operations reported in the consolidated income statement	22,247	7,183
	22,247	9,842

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

Share of tax attributable to associates amounting to HK\$8,227,000 (2006: HK\$6,567,000) is included in "Share of results of associates" on the face of the consolidated income statement.

9. DISCONTINUED OPERATIONS

On 22 September 2006, Marvel Leader Investments Limited ("Marvel") and Thrivetrade Limited ("Thrivetrade") entered into an agreement, pursuant to which Marvel agreed to purchase and Thrivetrade agreed to sell the entire issued share capital of Starhigh International Limited ("Starhigh"). Marvel is a wholly-owned subsidiary of C C Land and Starhigh was a wholly-owned subsidiary of Thrivetrade, which was 100% owned by Mr. Cheung Chung Kiu, a Director of the Company. The aggregate value of the consideration for the transaction was approximately HK\$3,317,553,000 which was principally satisfied by the issue of C C Land's shares ("Consideration Shares") and the issue of convertible note by C C Land. As a result of the issue of the Consideration Shares upon the completion of the transaction and the subsequent full conversion of the convertible note issued by C C Land, the Company's interest in C C Land was passively diluted from 64.54% to 14.08%, resulting in a deemed disposal of the Group's interest in C C Land. Consequently, C C Land ceased to be a subsidiary of the Group.

Notes to Condensed Consolidated Financial Statements

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9. DISCONTINUED OPERATIONS (Continued)

Upon completion of the above deemed disposal, the manufacturing and sale of packaging and luggage businesses of C C Land attributable to the Group were discontinued and the results of the discontinued operations for the period are set out as follows:

	Notes	For the six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Revenue	4	—	373,577
Cost of sales		—	(326,353)
Gross profit		—	47,224
Other income and gains	4	—	5,253
Administrative and other expenses		—	(35,098)
Finance costs	6	—	(929)
Profit before tax from the discontinued operations		—	16,450
Tax	8	—	(2,659)
Profit after tax for the period from the discontinued operations		—	13,791
Attributable to:			
Equity holders of the Company		—	8,901
Minority interests		—	4,890
		—	13,791

The net cash flows incurred by the discontinued operations of C C Land are as follows:

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Operating activities	—	(10,246)
Investing activities	—	(105)
Financing activities	—	(3,186)
Net cash outflow	—	(13,537)
Earnings per share from the discontinued operations:		
Basic	N/A	0.102 HK cents
Diluted	N/A	0.095 HK cents

Notes to Condensed Consolidated Financial Statements

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9. DISCONTINUED OPERATIONS *(Continued)*

The calculations of basic and diluted earnings per share from the discontinued operations are based on:

	For the six months ended 30 June	
	2007 (Unaudited)	2006 (Unaudited)
Profit attributable to ordinary equity holders of the Company from the discontinued operations	—	HK\$8,901,000
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation <i>(note 11)</i>	N/A	8,724,321,700
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation <i>(note 11)</i>	N/A	9,330,114,382

10. DIVIDENDS PAID AND PROPOSED

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Dividends on ordinary shares declared and paid during the six months period:		
Final dividend for 2006: 0.3 HK cents (2005: 0.3 HK cents)	27,043	26,173

The Board resolved not to declare any interim dividend for the six months ended 30 June 2007 (2006: Nil).

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

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

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11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

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

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation		
From continuing operations	260,315	116,534
From discontinued operations	—	8,901
	260,315	125,435
Interest on a convertible note <i>(note 6)</i>	894	1,649
	261,209	127,084
Profit attributable to ordinary equity holders of the Company before interest on a convertible note		
Attributable to:		
Continuing operations	261,209	118,183
Discontinued operations	—	8,901
	261,209	127,084
	Number of shares For the six months ended 30 June	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	9,014,321,700	8,724,321,700
Effect of dilution – weighted average number of ordinary shares:		
Convertible note	290,955,056	605,792,682
	9,305,276,756	9,330,114,382

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12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2007, the Group incurred approximately HK\$3,113,000 (2006: HK\$7,421,000) on the acquisition of property, plant and equipment.

13. TRADE DEBTORS

The aged analysis of trade debtors at the balance sheet date was as follows:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
0 — 60 days	—	7,574
61 — 120 days	6,453	—
	6,453	7,574

14. TRADE CREDITORS

The aged analysis of trade creditors at the balance sheet date was as follows:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
More than 60 days	942	977

15. CONVERTIBLE NOTE

On 25 May 2004, the Company entered into an agreement with Timmex in relation to the subscription by Timmex for an interest-bearing convertible note amounting to HK\$70,000,000 (the "Note"). Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu, a Director of the Company. The Note conferred the right on the noteholder to convert the whole or part of the principal amount of the Note into ordinary shares of the Company at any time from 31 July 2004 (the date of issuance) for a period of three years, at a conversion price of HK\$0.075 per share in the first year, HK\$0.082 per share in the second year and HK\$0.089 per share in the third year (subject to adjustment). The Note will mature for principal repayment on 31 July 2007. Interest on the Note is accrued from the date of issue on a day-to-day basis at 3% per annum on the principal amount of the Note and is payable annually in arrears.

Fair value of the liability component of the convertible note was determined, upon issuance, using the prevailing market interest rate for similar debt without a conversion option of 7.16% and was carried as a long-term liability. The remainder of the proceeds was allocated to the conversion option that was recognised and included in shareholders' equity.

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15. CONVERTIBLE NOTE *(Continued)*

In 2005 and 2006, Timmex exercised the conversion rights of the Note in an aggregate amount of HK\$20,325,000 and HK\$23,780,000, resulting in the issue of 271,000,000 and 290,000,000 new ordinary shares of the Company respectively. During the six months ended 30 June 2007, no conversion or redemption of the Note took place.

16. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within one year	625	763
In the second to fifth years, inclusive	222	465
	847	1,228

(b) As lessee

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

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within one year	996	996
In the second to fifth years, inclusive	83	581
	1,079	1,577

Notes to Condensed Consolidated Financial Statements

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17. COMMITMENTS

At the balance sheet date, the Group did not have any significant commitments (31 December 2006: Nil).

18. RELATED PARTY TRANSACTIONS

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

	Notes	For the six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Rental expenses for office premises			
paid to a substantial shareholder	(i)	498	498
Interest expense paid to a related company	(ii)	385	739
Sale of goods to a minority shareholder of a subsidiary	(iii)	—	13,431

Notes:

- (i) The rental expenses were charged at cost, based on the floor area occupied by the Group in respect of the office premises rented by Chongqing from an independent third party. Mr. Cheung Chung Kiu, being a Director of the Company, has a beneficial interest in Chongqing, a substantial shareholder of the Company. This transaction constituted a connected transaction of the Company under the Listing Rules.
- (ii) The interest expense paid to a related company was in respect of a convertible note issued by the Company to Timmex as detailed in note 15. The transaction also constituted a connected transaction of the Company under the Listing Rules.
- (iii) In the prior period, the sale of goods were made between Hoi Tin Universal Limited ("Hoi Tin"), a 60%-owned subsidiary of C C Land, and a minority shareholder owning 25% interest in Young Comfort Development Limited, a subsidiary of Hoi Tin. The transaction also constituted continuing connected transactions of the Company under the Listing Rules. With the deemed disposal of the Group's interest in C C Land during the year ended 31 December 2006 as set out in note 9 above, C C Land ceased to be a subsidiary of the Group and became an available-for-sale investment of the Group.

19. POST BALANCE SHEET EVENT

On 31 July 2007, the convertible note held by Timmex amounting to HK\$25,895,000 were fully converted into 290,955,056 ordinary shares of the Company at a conversion price of HK\$0.089 per share. After completion of this transaction, Timmex had an equity interest of 9.16% of the enlarged capital in the Company.

Notes to Condensed Consolidated Financial Statements

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20. COMPARATIVE AMOUNTS

The comparative income statement has been re-presented as if the operations discontinued during the second half of last year had been discontinued at the beginning of the comparative period (note 9).

21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved by the Board on 14 September 2007.