

# YUGANG

YUGANG INTERNATIONAL LIMITED

Stock Code: 613

2009 Interim Report

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-Executive Directors

Mr. Lee Ka Sze, Carmelo  
Mr. Wong Yat Fai

### Independent Non-Executive Directors

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

## COMMITTEES

### Audit Committee

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

### Remuneration Committee

Mr. Cheung Chung Kiu  
Mr. Ng Kwok Fu  
Mr. Leung Yu Ming, Steven

## COMPANY SECRETARY

Albert T. da Rosa, Jr.

## AUDITORS

Ernst & Young

## PRINCIPAL BANKERS

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

## SOLICITORS

### Bermuda:

Conyers Dill & Pearman

### Hong Kong:

Woo Kwan Lee & Lo  
Cheung, Tong & Rosa

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited  
6 Front Street  
Hamilton HM11  
Bermuda

## SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

## REGISTERED OFFICE

Clarendon House  
Church Street  
Hamilton HM11  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 3301-3307  
China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

## WEBSITE

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

## STOCK CODE

613

# Management Discussion and Analysis

On behalf of the board (the "Board") of directors (the "Directors") of Yugang International Limited (the "Company"), I am pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2009.

## RESULTS

The Group recorded a profit attributable to equity shareholders of the Company for the six months ended 30 June 2009 of HK\$212.4 million, compared to a loss of HK\$312.8 million for the last corresponding period. Basic earnings per share for the six months ended 30 June 2009 was 2.28 HK cents, compared to basic loss per share of 3.36 HK cents for the last corresponding period.

## BUSINESS REVIEW

During the first half of 2009, the global financial market gradually stabilized due to massive injection of liquidity by central banks all over the world in a concerted effort. Nevertheless, fundamentals are still weak showing no sign of full economic recovery in the short and medium terms. US unemployment rate soared to a 26-year record high of 9.5% in June 2009 whilst Hong Kong unemployment rate was up to 5.4%, being a record high for ten consecutive months. The exports in Mainland China plunged for seven consecutive months to 26.4% in May against last year and Hong Kong retail sales tumbled 6.2% year-on-year in May 2009. All these data revealed that the results of economic stimulus measures launched by various governments were not obvious.

However, both the stock and property market in Hong Kong surged commencing March 2009. The rally is mainly the result of massive influx of liquidity due to relaxation of bank lending policy in Mainland China and quantitative easing in monetary policy by the US. In addition, the Central Government's economic stimulus measures and large scale infrastructure projects successfully stabilized the economy. All business segments of the Group were therefore benefited to yield a satisfactory result for the financial period under review.

# Management Discussion and Analysis

## Property Investment and Infrastructure Business

### *Property Investment Business*

Y.T. Realty Group Limited (“Y.T. Realty”), an associate of the Group and the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), is the flagship of the Group’s property investment business. It currently holds the whole block of Century Square and Prestige Tower situated in the core of Central District and Tsimshatsui. Rental income for the six months ended 30 June 2009 amounted to HK\$60.2 million, representing an increase of 9.1% from the last corresponding period. It was attributable to the overall rental rise at renewal and new lease of tenants despite the occupancy rate slightly slid below 90%.

With favorable locations together with comprehensive quality in-house professional management team and appropriate market positioning of properties, Y.T. Realty was able to attract a number of quality tenants including luxurious brands and therefore enhanced the capital value of the investment properties. The investment properties were independently revalued for a surplus of HK\$147.5 million at 30 June 2009.

The net profit after tax of Y.T. Realty for the period was HK\$241.7 million, representing an increase of HK\$27.9 million or 13.0% from the last corresponding period.

### *Infrastructure Business*

Y.T. Realty also carried on an infrastructure business through its major associate, The Cross-Harbour (Holdings) Limited (“Cross-Harbour”), the shares of which are listed on the main board of the Stock Exchange. This infrastructure business comprised 50% interest in Western Harbour Tunnel and 39.5% interest in Tate’s Cairn Tunnel. During the financial period under review, the tunnel operations were least affected by the economic downturn and continuously generated steady stream of toll revenue. The net profit after tax and minority interests of Cross-Harbour for the period was HK\$176.3 million, representing an increase of HK\$6.1 million or 3.6% from the last corresponding period.

## Treasury Investment

Since the third quarter of last year, the global credit crisis has greatly affected the international financial markets. Hong Kong stock market was not immunized and became very volatile. In this regards, the Group managed its securities investment cautiously and prudently.

During the six months ended 30 June 2009, the Group disposed of its securities investment to realize a gain of HK\$72.5 million. In addition, the Group recorded a fair value gain of HK\$55.1 million on the revaluation of securities investment as a result of surging up of stock market with strong momentum for the period. The improved performance of treasury investment has therefore contributed a satisfactory result to the Group in the first half of 2009.

# Management Discussion and Analysis

## PROSPECT

Given the recent rally in both the stock and property markets is the result of massive influx of liquidity, this liquidity-induced wealth effect may not be long sustained. Both the stock and property market will be prone to adjustments and consolidation if the liquidity channels out of the markets.

Although most business tycoons expressed their view that the worst time of economy might have passed, it is generally believed that a V-bound of economy is quite unlikely. Many challenges still lie ahead for a full economic recovery. Real growth of economy is yet to be confirmed.

The Group is cautiously optimistic towards the economic growth of the coming year. However, the Group will remain its cautious approach to manage its investment portfolios and focus on maintaining a strong and healthy financial position.

In light of the current economic environment of Hong Kong, Y.T. Realty has taken initiative to upgrade its investment properties to attract and retain quality tenants. Encouraging results such as confirmation of some leasing commitments have been seen during the upgrading work being undertaken. The stable growth of rental income of Y.T. Realty and steady stream of toll revenue from its infrastructure business will strengthen the profit contribution to the Group and enhance the asset value of the Group.

Looking ahead, the Group will remain cautious in the operational and financial management and strive to maintain sound financial and management capabilities to deal with any upcoming opportunities and challenges.

## FINANCIAL REVIEW

### Comprehensive Income

The consolidated profit attributable to shareholders of the Company for the six months ended 30 June 2009 was HK\$212.4 million. Taking effect of new HKFRS from 1 January 2009, fair value gain or loss on available-for-sale investment which was previously recognized to a reserve account will be taken into account to arrive at a total comprehensive income or loss attributable to shareholders of the Company. Fair value gain on available-for-sale investment of the Group for the period was HK\$785.6 million. Therefore, the total comprehensive income attributable to shareholders of the Company for the six months ended 30 June 2009 was HK\$1,001.3 million, compared to total comprehensive loss of HK\$1,973 million for the last corresponding period.

# Management Discussion and Analysis

## Net Asset Value

As at 30 June 2009, the consolidated net asset value of the Group was HK\$2,945.4 million and the consolidated net asset value per share was HK\$0.317.

## Capital Structure

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

As at 30 June 2009, the Group had short term bank borrowing of HK\$80 million, which had been fully repaid as at the date of interim report.

The Group adopts conservative treasury policies in cash and financial management. In order to minimize the cost of funds, the Group's treasury activities are centralized. Cash is generally placed in short-term deposits mostly denominated in U.S. dollars and Hong Kong dollars. The Group does not use any financial instruments for hedging purpose.

## Liquidity and Financial Resources

As at 30 June 2009, the Group maintained bank balance of HK\$224.3 million and high level of liquidity as measured by the current ratio of 4.9 and net current assets of HK\$451.7 million. In addition, the Group had also recorded an increase in cash and cash equivalents of HK\$125.2 million during the financial period under review.

## Gearing Ratio

Gearing ratio, measured by dividing net debt to shareholder's equity, decreased to zero at period end date. Net debt was total debt excluding deferred taxation net of cash and cash equivalents and was calculated as zero when cash and cash equivalents was more than enough to cover the total debt.

# Management Discussion and Analysis

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

The Group has currently two significant investments that are held for long term.

The Group held an equity interest in C C Land Holdings Limited (“C C Land”), the shares of which are listed on the main board of Stock Exchange. It was classified as an available-for-sale investment and stated at fair value of HK\$1,281.4 million as at 30 June 2009, representing a fair value gain of HK\$785.6 million for the period. The fair value gain was recognized as other comprehensive income in the consolidated statement of comprehensive income for the period. The Group received a dividend income of HK\$5.1 million from C C Land during the period.

The Group held a substantial equity interest in Y.T. Realty with a carrying value of HK\$1,099.8 million as at 30 June 2009. The net profit after tax of Y.T. Realty for the period was HK\$241.7 million.

Save as disclosed above, there were no significant investment held, nor material acquisitions and disposals of subsidiaries during the period under review. There was no plan for material investments or capital assets as at 30 June 2009.

## **Contingent Liabilities**

The Group did not have any material contingent liabilities as at 30 June 2009.

## **Exchange Risk**

The Group’s exposure to foreign exchange risk was minimal as 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.

## **Charge on Group Assets**

As at 30 June 2009, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$61.3 million and time deposits of approximately HK\$9.3 million as securities for general banking facilities granted to the Group.

## **Comments on Segment Information**

Changes and development of the Group’s segments were discussed in the Business Review of Management Discussion and Analysis. The segment information and results are set out in note 3 to Condensed Consolidated Financial Statements in this Interim Report. Save as disclosed herein, there were no significant changes in the market conditions, new products or services introduced that had significantly affected the Group’s performance.

# Management Discussion and Analysis

## OPERATIONAL REVIEW

### Human Resources Practices

The Group's remuneration policy is built on the principle of providing performance-oriented and market competitive packages to employees alight with the Group's goals and objectives. The Group employed 42 employees. The Group's total remuneration costs amounted to HK\$13.3 million for the six months ended 30 June 2009.

Additionally, a wide range of benefits including MPF, medical insurance and discretionary training subsidies are provided to employees.

### Share Option Scheme

The Company adopted a share option scheme on 29 April 2005 aiming to motivate the performance of employees at the highest level. No share option was granted during the financial period under review.

### Corporate Governance

The Company is committed to achieving and maintaining high standards of corporate governance. Throughout the accounting period for the six months ended 30 June 2009, 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").

### Securities Transactions by Directors

The Company has adopted the Code for Securities Transactions by Directors of the Company ("Directors Securities Dealings Code") on terms no less exacting than the required standards 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 confirmed that they had, throughout the six months ended 30 June 2009, complied with the required standards set out in the Model Code and the Directors Securities Dealings Code.

# Management Discussion and Analysis

## **Updated Information on Directors Pursuant to Rule 13.51B(1) of the Listing Rules**

Mr. Lee Ka Sze, Carmelo, a non-executive director of the Company, was appointed an independent non-executive director of Ping An Insurance (Group) Company of China, Limited (“Ping An Insurance”) on 9 June 2009. Ping An Insurance is a public company the shares of which are listed on the Stock Exchange and Shanghai Stock Exchange.

Save as disclosed herein and upon specific enquiry by the Company, there is no change in information of Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company’s last published annual report.

## **REVIEW BY AUDIT COMMITTEE**

The interim report has been reviewed by the audit committee. With management, the audit committee has reviewed the accounting principles and practices adopted by the Company and its subsidiaries and discussed internal control and financial reporting matters, including the review of the unaudited consolidated interim financial statements.

## **INTERIM DIVIDEND**

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2009 (2008: Nil).

## Disclosure of Interests

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OF THE COMPANY

As at 30 June 2009, Directors' and Chief Executive's interests and short positions 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) Long Positions in Shares of the Company

Name of Director	Nature of Interest	Number of Ordinary Shares Held	Percentage of the Company's Issued Share Capital
Mr. Cheung Chung Kiu	Corporate ( <i>note 1</i> )	4,046,389,740	43.49
	Personal	53,320,000	0.57
Mr. Zhang Qing Xin	Personal	13,600,000	0.15
Mr. Lam Hiu Lo	Personal	41,800,000	0.45
Mr. Liang Kang	Personal	20,000,000	0.21

#### (ii) Long Positions in Shares 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 ( <i>note 2</i> )	273,000,000	34.14
Mr. Ng Kwok Fu	Y.T. Realty Group Limited	Associate	Ordinary shares	Personal and family	90,000	0.01

## Disclosure of Interests

*Notes:*

- (1) Out of the 4,046,389,740 shares, 3,194,434,684 shares were held by Chongqing Industrial Limited ("Chongqing") and 851,955,056 shares were held by Timmex Investment Limited ("Timmex").

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

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

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

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

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

Save as disclosed above, as at 30 June 2009, none of the Directors or the Chief Executive and their respective associates had any interests 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 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.

# Disclosure of Interests

## DISCLOSEABLE INTERESTS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2009, the following persons had an interest of 5% or more in the shares or underlying shares of the Company which were recorded in the register as required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

### Long Positions in Shares of the Company

Name	Notes	Capacity and Nature of Interest	Number of Shares/ Underlying Shares Held	Percentage of the Company's Issued Share Capital
Timmex Investment Limited	1	Corporate	851,955,056	9.16
Chongqing Industrial Limited	2	Corporate	3,194,434,684	34.33
Palin Holdings Limited	3	Trustee of a Family Trust	3,194,434,684	34.33
Mr. Cheung Chung Kiu	4	Corporate and personal	4,099,709,740	44.06

Notes:

- (1) Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu.
- (2) The voting rights of these shares are exercisable by Chongqing which is controlled by Mr. Cheung Chung Kiu.
- (3) Palin Holdings Limited is the trustee of 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 851,955,056 shares are held by Chongqing and Timmex respectively and 53,320,000 shares are held by Mr. Cheung Chung Kiu personally.

Save as disclosed above, as at 30 June 2009, no other person had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register pursuant to section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

## Disclosure of Interests

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any listed securities of the Company during the financial period under review.

### APPRECIATION

On behalf of the Board, I would like to extend our gratitude and appreciation to the 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, 18 September 2009

# Consolidated Income Statement

For the six months ended 30 June 2009

	Notes	For the six months ended 30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
REVENUE	4	111,870	6,663
Cost of sales		—	(2,304)
Gross profit		111,870	4,359
Other income and gains	4	64,182	20,073
Administrative expenses		(45,797)	(41,872)
Other expenses	5	—	(331,979)
Finance costs	6	(369)	(465)
Share of profits and losses of associates		82,517	37,926
PROFIT/(LOSS) BEFORE TAX	7	212,403	(311,958)
Tax	8	(37)	(881)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		212,366	(312,839)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic earnings/(loss) per share	10	2.28 HK cents	(3.36) HK cents

# Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	212,366	(312,839)
Share of other comprehensive income of associates	3,344	78
Fair value gains/(losses) on available-for-sale investments	785,600	(1,660,199)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	788,944	(1,660,121)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	<u>1,001,310</u>	<u>(1,972,960)</u>

# Consolidated Statement of Financial Position

30 June 2009

	Note	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property and equipment	11	13,159	12,076
Investment properties		17,200	17,200
Prepaid land lease payments		63,278	63,925
Interests in associates		1,099,806	1,019,405
Convertible notes receivable - loan portion		5,277	4,631
Loans receivable		—	1,000
Available-for-sale investments		1,296,542	511,224
Other assets		360	360
Total non-current assets		<u>2,495,622</u>	<u>1,629,821</u>
<b>CURRENT ASSETS</b>			
Listed equity investments at fair value through profit or loss		240,532	377,530
Conversion option derivative		7,388	4,858
Loans receivable		81,000	1,000
Prepayments, deposits and other receivables		13,654	4,000
Pledged time deposits		9,335	9,330
Time deposits		1,782	40,144
Cash and bank balances		213,176	49,587
Total current assets		<u>566,867</u>	<u>486,449</u>
<b>CURRENT LIABILITIES</b>			
Tax payable		28,459	28,459
Other payables and accruals		6,738	21,866
Interest-bearing bank loans		80,000	120,000
Total current liabilities		<u>115,197</u>	<u>170,325</u>
<b>NET CURRENT ASSETS</b>		<u>451,670</u>	<u>316,124</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,947,292</u>	<u>1,945,945</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		1,902	1,865
Net assets		<u>2,945,390</u>	<u>1,944,080</u>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Issued capital		93,053	93,053
Reserves		2,852,337	1,851,027
Total equity		<u>2,945,390</u>	<u>1,944,080</u>

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	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	Other reserves (Unaudited) HK\$'000	Available-for-sale investments revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed final dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2009	93,053	907,280*	760,799*	(419)*	(9,249)*	(419,172)*	611,788*	—	1,944,080
Profit for the period	—	—	—	—	—	—	212,366	—	212,366
Other comprehensive income for the period	—	—	—	—	3,344	785,600	—	—	788,944
Total comprehensive income for the period	—	—	—	—	3,344	785,600	212,366	—	1,001,310
At 30 June 2009	<u>93,053</u>	<u>907,280*</u>	<u>760,799*</u>	<u>(419)*</u>	<u>(5,905)*</u>	<u>366,428*</u>	<u>824,154*</u>	<u>—</u>	<u>2,945,390</u>
At 1 January 2008	93,053	907,280	760,799	(419)	221	1,973,802	1,335,454	27,916	5,098,106
Loss for the period	—	—	—	—	—	—	(312,839)	—	(312,839)
Other comprehensive income/(loss) for the period	—	—	—	—	78	(1,660,199)	—	—	(1,660,121)
Total comprehensive income/(loss) for the period	—	—	—	—	78	(1,660,199)	(312,839)	—	(1,972,960)
Dividend paid (note 9)	—	—	—	—	—	—	—	(27,916)	(27,916)
At 30 June 2008	<u>93,053</u>	<u>907,280</u>	<u>760,799</u>	<u>(419)</u>	<u>299</u>	<u>313,603</u>	<u>1,022,615</u>	<u>—</u>	<u>3,097,230</u>

\* These reserve accounts comprise the consolidated reserves of HK\$2,852,337,000 (31 December 2008: HK\$1,851,027,000) in the consolidated statement of financial position.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	156,914	(55,067)
NET CASH INFLOW FROM INVESTING ACTIVITIES	8,781	9,868
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(40,468)	(28,381)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	125,227	(73,580)
Cash and cash equivalents at beginning of period	89,731	182,838
CASH AND CASH EQUIVALENTS AT END OF PERIOD	214,958	109,258
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	213,176	63,834
Non-pledged time deposits	1,782	45,424
	214,958	109,258

# Notes to Condensed Consolidated Financial Statements

30 June 2009

## 1. CORPORATE INFORMATION

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 to the condensed consolidated financial statements.

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2009 were authorised for issue in accordance with a resolution of the board of directors on 18 September 2009.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group 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 applicable disclosure provisions of the Listing Rules.

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2008.

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2008 and in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs, and Interpretations) issued by HKICPA, except that the Group has in the current period applied, for the first time the following new HKFRSs:

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment - Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	<i>Financial Instruments: Disclosures</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>

# Notes to Condensed Consolidated Financial Statements

30 June 2009

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

Apart from the above, the Group has also adopted *Improvements to HKFRSs\** which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wordings.

\* *Improvements to HKFRSs* contain amendments to HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The adoption of these new interpretations and amendments has no significant effect on these unaudited condensed consolidated interim financial statements and there have been no significant changes to the accounting policies applied in these unaudited condensed consolidated interim financial statements, except for the followings:

### **(a) HKFRS 8: Operating Segments**

HKFRS 8 requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The adoption of HKFRS 8 did not have any effect on the financial position or performance of the Group. However, it has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's senior management and has resulted in additional reportable segments being identified and presented. Additional disclosures about each of these segments are shown in note 3 to the condensed consolidated financial statements, including revised comparative information.

# Notes to Condensed Consolidated Financial Statements

30 June 2009

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

### **(b) HKAS 1 (Revised): Presentation of Financial Statements**

HKAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the financial statements) and has resulted in a number of changes in presentation and disclosures of financial statements. HKAS 1 (Revised) also separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two linked statements.

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

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards<sup>1</sup></i>
HKFRS 2 Amendments	<i>Group Cash-settled Share-based Payment Transactions<sup>3</sup></i>
HKFRS 3 (Revised)	<i>Business Combinations<sup>1</sup></i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements<sup>1</sup></i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items<sup>1</sup></i>
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners<sup>1</sup></i>
HK(IFRIC)-Int 18	<i>Transfer of Assets from Customers<sup>2</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>2</sup> Effective for transfer of assets from customers received on or after 1 July 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010.

In addition, improvements to HKFRSs were issued in May 2009 by HKICPA which contains amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, Appendices to HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 which are effective for annual periods beginning on or after 1 July 2009 and no transitional provisions for amendment to Appendix to HKAS 18 have been specified, other amendments are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

# Notes to Condensed Consolidated Financial Statements

30 June 2009

## 3. SEGMENT INFORMATION

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

- (a) The treasury investment segment trades and holds debt and equity securities, receives interest and dividend income from the relevant securities investments and interest income from the provision of financing services.
- (b) The property and infrastructure investment segment invests in properties for rental income and/or for capital appreciation potential, and invests in an associate which holds two tunnels in Hong Kong generating toll revenue. The property investment activities of this segment are carried out by Y.T. Realty, an associate of the Group, whilst the infrastructure investment activities are carried out through an associate of Y.T. Realty.
- (c) The “Other” segment consists of trading of scrap metals and other materials and other investments.

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

# Notes to Condensed Consolidated Financial Statements

30 June 2009

## 3. SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2009

	Treasury investment <i>HK\$'000</i> (Unaudited)	Property and infrastructure investment <i>HK\$'000</i> (Unaudited)	Other <i>HK\$'000</i> (Unaudited)	Reportable segments total <i>HK\$'000</i> (Unaudited)	Adjustments (Note) <i>HK\$'000</i> (Unaudited)	Consolidated <i>HK\$'000</i> (Unaudited)
Segment revenue:						
Revenue from external customers	111,870	66,331	—	178,201	(66,331)	111,870
Other income and gains	62,865	248	1,317	64,430	(248)	64,182
Total revenue and gains	<u>174,735</u>	<u>66,579</u>	<u>1,317</u>	<u>242,631</u>	<u>(66,579)</u>	<u>176,052</u>
Segment profit/(loss) for the period	<u>140,983</u>	<u>241,701</u>	<u>(1,232)</u>	<u>381,452</u>	<u>(159,184)</u>	222,268
Corporate and unallocated income and expenses, net						<u>(9,902)</u>
Profit for the period						<u>212,366</u>

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

# Notes to Condensed Consolidated Financial Statements

30 June 2009

## 3. SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2008

	Treasury investment <i>HK\$'000</i> (Unaudited)	Property and infrastructure investment <i>HK\$'000</i> (Unaudited)	Other <i>HK\$'000</i> (Unaudited)	Reportable segments total <i>HK\$'000</i> (Unaudited)	Adjustments (Note) <i>HK\$'000</i> (Unaudited)	Consolidated <i>HK\$'000</i> (Unaudited)
<b>Segment revenue:</b>						
Revenue from external customers	4,313	60,609	2,350	67,272	(60,609)	6,663
Other income and gains	13,730	442	6,343	20,515	(442)	20,073
Total revenue and gains	<u>18,043</u>	<u>61,051</u>	<u>8,693</u>	<u>87,787</u>	<u>(61,051)</u>	<u>26,736</u>
<b>Segment profit/(loss) for the period</b>	<u>(344,163)</u>	<u>213,827</u>	<u>3,105</u>	<u>(127,231)</u>	<u>(175,901)</u>	<u>(303,132)</u>
Corporate and unallocated income and expenses, net						<u>(9,707)</u>
Loss for the period						<u>(312,839)</u>

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

# Notes to Condensed Consolidated Financial Statements

30 June 2009

## 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, gain/(loss) on disposal of listed equity investments at fair value through profit or loss, dividend income from listed equity investments at fair value through profit or loss and interest income from convertible notes and loans receivable during the period.

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

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
<b>Revenue</b>		
Sale of goods	—	2,350
Gain/(loss) on disposal of listed equity investments at fair value through profit or loss, net	72,522	(4,576)
Dividend income from listed equity investments at fair value through profit or loss	37,384	6,372
Interest income from convertible notes and loans receivable	1,964	2,517
	<u>111,870</u>	<u>6,663</u>
<b>Other income and gains</b>		
Gross rental income	466	444
Interest income on bank deposits	10	904
Fair value gains, net:		
Listed equity investments at fair value through profit or loss	55,126	—
Conversion option derivative	2,529	—
Dividend income from available-for-sale investments	5,200	12,826
Fair value gains on investment properties	—	5,700
Others	851	199
	<u>64,182</u>	<u>20,073</u>

# Notes to Condensed Consolidated Financial Statements

30 June 2009

## 5. OTHER EXPENSES

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Fair value losses on listed equity investments at fair value through profit or loss, net	—	331,979

## 6. FINANCE COSTS

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Interest on bank loans	369	465

## 7. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Cost of inventories sold	—	2,304
Depreciation	1,088	1,230
Amortisation of prepaid land lease payments	647	826

# Notes to Condensed Consolidated Financial Statements

30 June 2009

## 8. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Hong Kong Deferred tax charge	<u>37</u>	<u>881</u>

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

Share of tax attributable to associates amounting to HK\$10,513,000 (2008: HK\$5,477,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

## 9. DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2009 (2008: Nil).



# Notes to Condensed Consolidated Financial Statements

30 June 2009

## 12. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

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

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Within one year	525	767
In the second to fifth years, inclusive	415	553
	<u>940</u>	<u>1,320</u>

### (b) As lessee

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

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Within one year	1,201	1,246
In the second to fifth years, inclusive	93	655
	<u>1,294</u>	<u>1,901</u>

## 13. COMMITMENTS

At the end of the reporting date, the Group did not have any significant commitments (31 December 2008: Nil).

# Notes to Condensed Consolidated Financial Statements

30 June 2009

## 14. RELATED PARTY TRANSACTION

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

		For the six months ended 30 June	
	Note	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Rental expenses for office premises paid to a substantial shareholder	(i)	—	498

Note:

- (i) The rental expenses were charged at cost, based on the floor area shared and occupied by the Group in respect of the office premises rented by Chongqing Industrial Limited, a substantial shareholder of the Company. This transaction also constituted a connected transaction of the Company under the Listing Rules.

## 15. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the Board on 18 September 2009.