

YUGANG

YUGANG INTERNATIONAL LIMITED

Stock Code: 613

INTERIM REPORT **2011**

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

AUTHORISED REPRESENTATIVES

Mr. Cheung Chung Kiu
Mr. Yuen Wing Shing

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

LEGAL ADVISERS

Bermuda:

Conyers Dill & Pearman

Hong Kong:

Woo Kwan Lee & Lo
Cheung, Tong & Rosa

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Bank Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE ADDRESS

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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 (the “Group”) for the six months ended 30 June 2011.

RESULTS

The Group recorded a profit attributable to equity shareholders of the Company of HK\$26.5 million for the six months ended 30 June 2011, representing a decrease of HK\$21.8 million from the last corresponding period. Basic earnings per share for the six months ended 30 June 2011 was HK0.29 cents, whereas basic earnings per share of HK0.52 cents (as restated) were recorded for the last corresponding period.

BUSINESS REVIEW

The economy of Hong Kong continued a robust growth with low unemployment rate and strong domestic consumption during the first half of 2011. Export growth was still strong and the buoyant consumer demand continued to underpin growth. The retail sales market recorded a tremendous growth due to ever-rising visitor arrivals from Mainland China during the period. Inflationary pressure, however, continued to rise in Hong Kong with the latest CPI leaping to above 5%. It had escalated property price and rental price for the period. The property investment business of the Group was, therefore, benefited to earn a satisfactory growth in rental income as well as capital value of its properties.

The financial market of Hong Kong was, however, much volatile during the first half of 2011. The stock market was adversely impacted by a chain of negative factors. The Central Government took further measures to curb inflation by raising interest rate and reserve requirement ratio. As a result of tightening monetary policies, the PMI ceased to rise and the worries of China’s economic hard-landing spread over the market. On the other hand, the sovereign credit rating of some European countries such as Greece had further been reduced by some international credit rating agencies. Even worse, the fear of Europe’s sovereign debt crisis spread to Italy and Spain, causing panic in the global financial markets. In addition, the second round of quantitative easing of the U.S. finished at the end of June without subsidizing a new round. The U.S. economic growth slowed down and the unemployment rate for June climbed up to 9.2 percent which deepened the market worries about the fading of the momentum of the U.S. economic recovery. As the Group’s treasury investment highly correlated with the performance of financial market, the performance of its treasury investment for the period was therefore adversely impacted.

Management Discussion and Analysis

Property Investment and Infrastructure Business

Property Investment Business

The property investment business of the Group was carried out through an associate, Y. T. Realty Group Limited (“Y. T. Realty”), the shares of which are traded on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Major investment properties include the whole block of Century Square and Prestige Tower, both situate in the core of Central District and Tsimshatsui respectively.

These investment properties were renovated in prior years with beauty facades to meet the trend of lifestyle hub in Central and Tsimshatsui. It had successfully captured the tremendous growth in retail property market and thereby attracted quality tenants at favorable rent. The increasing number of Mainland tourists visiting Hong Kong contributed significantly to the growth of retail property market. In order to capture the lavish spending from Mainland tourists, many international brands set up or expanded their flagship stores in Hong Kong which pushed rents up quickly. Therefore, the demand for office or retail space was strong particularly in prime location. It enabled the Group’s property leasing to flourish with competitive rent. During the period, overall rental rate increased by over 10% and the occupancy rate was at an average of 95%.

During the six months ended 30 June 2011, rental income from investment properties of Y. T. Realty amounted to HK\$73.1 million, representing an increase of 12.2% from the last corresponding period. Revaluation surplus of investment properties of HK\$303.1 million was recorded, representing an increase of HK\$132.2 million from the last corresponding period. The net profit after tax and non-controlling interests of Y. T. Realty was HK\$363.0 million, representing an increase of HK\$74.6 million from the last corresponding period.

Infrastructure Business

The infrastructure business of the Group comprised investments in tunnels, transports and logistic operations. It was carried out through The Cross-Harbour (Holdings) Limited (“Cross-Harbour”), whose shares are traded on the main board of the Stock Exchange. Cross-Harbour currently holds 50% equity interests in Western Harbour Tunnel Company Limited and 39.5% equity interests in Tate’s Cairn Tunnel Company Limited, both of which generated stable stream of toll income. Given a strong domestic consumption during the first half of 2011, the average daily throughput of both Western Harbour Tunnel and Tate’s Cairn Tunnel continued to grow moderately, thereby resulting in an increased contribution from tunnel operation for the period.

Treasury Investment

The local stock market was volatile during the six months ended 30 June 2011. It was attributable to the uncertainties of external economies, particularly sovereign debt crisis in Europe which had significantly hit the investors’ confidence. The Group’s treasury investment segment was inevitably affected and recorded an unrealized fair value loss on listed equity investments of HK\$74.9 million for the period.

Management Discussion and Analysis

PROSPECT

Looking ahead, the uncertainties of global economy will remain in the second half of the year and the lingering of European debt crisis will continue to hit the market confidence. In addition, the economic recovery of the U.S. will be hindered by weak consumer confidence and high unemployment rate. The downgrade of the US's AAA rating by an international credit agency in early August has shocked the global financial markets with significant adjustment. Therefore, it is expected that the financial market will be more volatile in the second half of the year and the performance of the Group's treasury investment will inevitably be affected. The Group will work diligently and cautiously to manage the securities portfolio including maintaining a well-diversified portfolio.

On the other hand, Y. T. Realty has successfully attracted quality tenants after the refurbishment of its investment properties during last year and has achieved a satisfactory growth in rental income. The Group considers that the stable growth of rental income from property investment business together with the steady stream of toll revenue from infrastructure business will continue to strengthen the Group's operating profit.

The Group is cautious about the economy of Hong Kong which is susceptible to external economies. The Group will adopt a prudent approach in treasury management and strive to maintaining sound financial and management capabilities to deal with any upcoming opportunities and challenges.

FINANCIAL REVIEW

Comprehensive Income

The Group recorded a total comprehensive income of HK\$101.5 million for the six months ended 30 June 2011, whereas a total comprehensive loss of HK\$204.8 million was recorded for the last corresponding period. It was mainly attributable to a fair value gain of HK\$76.3 million on available-for-sale investment whereas a fair value loss on available-for-sale investment was HK\$251.7 million for the last corresponding period.

Net Asset Value

As at 30 June 2011, the unaudited consolidated net asset value of the Group was HK\$2,567.8 million and the unaudited consolidated net asset value per share was HK\$0.276.

Capital Structure

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

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

Management Discussion and Analysis

Liquidity and Financial Resources

As at 30 June 2011, the Group's cash, bank balances, short term bank deposits (excluding pledged time deposits) and listed securities investment totaled HK\$303.5 million. The Group maintained the current ratio at 2.7 and net current assets of HK\$205.4 million. The Group had short term bank borrowings of HK\$85.0 million which were denominated in Hong Kong dollars and undrawn short-term banking facilities of approximately HK\$177.0 million.

Taking into account the financial resources available to the Group, including internal resources and committed banking facilities, the Group has sufficient working capital to meet the present requirements.

Gearing Ratio

Gearing ratio of the Group, as measured by dividing net debt to shareholders' equity, was 2.7%. Net debt includes interest-bearing bank borrowings, other payables and accruals, net of cash and cash equivalents.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2011.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's major sources of income, expenses, major assets and bank deposits were denominated in Hong Kong dollars and U.S. dollars. The Group had certain securities investment denominated in foreign currencies which represented only 3.9% of the Group's net asset value. Hence the Group's exposure to fluctuations in foreign exchange rate is minimal and the Group did not have any related hedging instruments.

Charge on Group Assets

As at 30 June 2011, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$68.1 million and time deposits of approximately HK\$9.4 million as securities for general banking facilities granted to the Group.

Comments on Segment Information

Discussion and comments on the Group's segments, including changes and development, were covered in the Business Review section. The operating results of each segment were set out in note 3 of Notes 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 that had significantly affected the Group's performance.

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 two significant investments held for long term.

The Group held a substantial equity interest in Y. T. Realty with carrying value of HK\$1,535.2 million as at 30 June 2011. The profit for the period attributable to equity holders of Y. T. Realty was HK\$363.0 million whereas the Group's share of profits was HK\$123.9 million.

The Group held an equity interest in C C Land Holdings Limited ("C C Land", the shares of which are listed on the main board of the Stock Exchange). As at 30 June 2011, the carrying value of C C Land was stated at fair value of HK\$742.4 million, representing an increase of HK\$76.3 million for the period. This amount of fair value gain was reported as other comprehensive income in the Consolidated Statement of Comprehensive Income and taken to an investment revaluation reserve account of the Group. The Group received a dividend income of HK\$10.2 million from C C Land for the period.

Save as disclosed above, there were no significant investment held, nor material acquisition or disposal of subsidiaries during the period under review. There is no plan authorised by the Board for other material investments or capital assets as at the date of the Interim Report.

Changes since 31 December 2010

There were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the 2010 annual report.

OPERATIONAL REVIEW

Human Resources

As at 30 June 2011, the Group employed 44 employees and the related remuneration costs amounted to HK\$14.3 million (2010: HK\$15.2 million).

The Group's remuneration policy is built on the principle of providing performance-oriented and market competitive packages to employees aligned with the Group's goals and objectives. A wide range of benefits including share option scheme, medical coverage, MPF and training subsidies are provided to employees. In addition, some social and recreational activities were arranged by the Staff Club during the period.

There was no material change in respect of the Group's employment and remuneration policies as set out in the 2010 annual report.

Additional Information

Corporate Governance

The Company is committed to achieving and maintaining high standards of corporate governance. Throughout the six months ended 30 June 2011, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Securities Transactions by Directors

The Company has established 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 to the Listing Rules.

Following specific enquiry by the Company, all Directors confirmed that they had, throughout the six months ended 30 June 2011, complied with the Model Code and the Directors Securities Dealings Code.

Changes in Information of Directors

Upon specific enquiry by the Company and following confirmation from Directors, 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.

Audit Committee

The audit committee of the Company has reviewed the 2011 Interim Report. In addition, it has also reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters, including the review of the unaudited interim condensed consolidated financial statements.

Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

Purchase, Sale or Redemption of the Company's listed securities

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

Disclosure of Interests

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2011, the interests and short positions of Directors and the Chief Executive of the Company in the shares, underlying shares or debentures of the Company and 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 are set out below:

(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 Corporation

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 objects include Mr. Cheung Chung Kiu and his family.

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

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

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

Save as disclosed herein, as at 30 June 2011, none of Directors or the Chief Executive had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as recorded in the register pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, the following persons had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Long positions:

Name	Notes	Capacity and Nature of Interest	Number of Ordinary Shares Held	Percentage of the Company'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

Disclosure of Interests

Notes:

- (1) Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu.
- (2) The voting rights of these shares are exercisable by Chongqing which is controlled by Mr. Cheung Chung Kiu.
- (3) Palin Holdings Limited is the trustee of Palin Discretionary Trust, a family discretionary trust, the objects 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 herein, as at 30 June 2011, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company that were required to be recorded in the register kept by the Company under section 336 of the SFO.

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 options were granted during the period and there were no share options outstanding at the beginning and at the end of the period under review.

APPRECIATION

On behalf of the Board, I would like to express my gratitude and appreciation to the shareholders for their support and the employees for their contribution to the Group throughout the period.

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

Hong Kong, 26 August 2011

Consolidated Income Statement

For the six months ended 30 June 2011

	Notes	Six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000 (Restated)
REVENUE	4	2,464	6,731
Other income and gains	4	14,879	16,174
Administrative expenses		(36,744)	(38,323)
Other expenses	5	(77,410)	(34,418)
Finance costs	6	(573)	(277)
Share of profits and losses of associates		123,931	98,445
PROFIT BEFORE TAX	7	26,547	48,332
Income tax	8	(13)	(4)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		26,534	48,328
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic and diluted		HK0.29 cents	HK0.52 cents

Details of dividend are disclosed in note 9 to the condensed consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000 (Restated)
PROFIT FOR THE PERIOD	<u>26,534</u>	<u>48,328</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Changes in fair value of available-for-sale investments	76,272	(251,672)
Share of other comprehensive loss of associates	<u>(1,293)</u>	<u>(1,490)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>74,979</u>	<u>(253,162)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	<u><u>101,513</u></u>	<u><u>(204,834)</u></u>

Consolidated Statement of Financial Position

30 June 2011

	Note	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Restated) HK\$'000	1 January 2010 (Restated) HK\$'000
NON-CURRENT ASSETS				
Property and equipment	11	52,158	53,500	77,284
Investment properties		26,000	23,000	18,000
Investments in associates		1,535,219	1,420,772	1,212,348
Convertible notes receivable - loan portion		—	—	6,013
Loans receivable		4,000	3,000	—
Available-for-sale investments		744,773	668,500	926,603
Other assets		360	360	360
Total non-current assets		<u>2,362,510</u>	<u>2,169,132</u>	<u>2,240,608</u>
CURRENT ASSETS				
Listed equity investments at fair value through profit or loss		280,877	326,786	309,051
Convertible notes receivable - loan portion		8,982	21,234	—
Conversion option derivatives		944	3,858	6,720
Loans receivable		1,000	—	1,000
Prepayments, deposits and other receivables		2,008	3,626	3,086
Pledged time deposits		9,407	9,384	9,341
Time deposits		1,796	34,924	1,784
Cash and bank balances		20,811	8,131	130,000
Total current assets		<u>325,825</u>	<u>407,943</u>	<u>460,982</u>
CURRENT LIABILITIES				
Other payables and accruals		5,966	22,621	21,942
Interest-bearing bank loans		85,000	40,000	60,000
Tax payable		29,463	29,463	29,463
Total current liabilities		<u>120,429</u>	<u>92,084</u>	<u>111,405</u>
NET CURRENT ASSETS		<u>205,396</u>	<u>315,859</u>	<u>349,577</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,567,906</u>	<u>2,484,991</u>	<u>2,590,185</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities		156	143	142
Net assets		<u>2,567,750</u>	<u>2,484,848</u>	<u>2,590,043</u>
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital		93,053	93,053	93,053
Reserves		2,474,697	2,391,795	2,496,990
Total equity		<u>2,567,750</u>	<u>2,484,848</u>	<u>2,590,043</u>

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to equity holders of the Company						
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Available-for-sale investments revaluation reserve (Unaudited) HK\$'000	Other reserves (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2011							
As previously reported	93,053	907,280	760,799	(248,825)	2,161	897,360	2,411,828
Effect of early adoption of Amendments to HKAS 12 (note 2(a))	—	—	—	—	—	73,020	73,020
As restated	93,053	907,280*	760,799*	(248,825)*	2,161*	970,380*	2,484,848
Profit for the period	—	—	—	—	—	26,534	26,534
Other comprehensive income/(loss) for the period:							
Changes in fair value of available-for-sale investments	—	—	—	76,272	—	—	76,272
Share of other comprehensive loss of associates	—	—	—	—	(1,293)	—	(1,293)
Total comprehensive income/(loss) for the period	—	—	—	76,272	(1,293)	26,534	101,513
2010 Final dividend paid (note 9)	—	—	—	—	—	(18,611)	(18,611)
At 30 June 2011	93,053	907,280*	760,799*	(172,553)*	868*	978,303*	2,567,750
At 1 January 2010							
As previously reported	93,053	907,280	760,799	2,866	(5,919)	780,441	2,538,520
Effect of early adoption of Amendments to HKAS 12 (note 2(a))	—	—	—	—	—	51,523	51,523
As restated	93,053	907,280	760,799	2,866	(5,919)	831,964	2,590,043
Profit for the period	—	—	—	—	—	48,328	48,328
Other comprehensive loss for the period:							
Changes in fair value of available-for-sale investments	—	—	—	(251,672)	—	—	(251,672)
Share of other comprehensive loss of associates	—	—	—	—	(1,490)	—	(1,490)
Total comprehensive income/(loss) for the period	—	—	—	(251,672)	(1,490)	48,328	(204,834)
2009 Final dividend paid (note 9)	—	—	—	—	—	(18,611)	(18,611)
At 30 June 2010	93,053	907,280	760,799	(248,806)	(7,409)	861,681	2,366,598

* These reserve accounts comprise the consolidated reserves of HK\$2,474,697,000 (31 December 2010 (restated): HK\$2,391,795,000) in the consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(65,485)	(65,122)
NET CASH FLOWS FROM INVESTING ACTIVITIES	19,192	14,240
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	25,845	(43,871)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(20,448)	(94,753)
Cash and cash equivalents at beginning of period	43,055	131,784
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>22,607</u>	<u>37,031</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	20,811	35,240
Non-pledged time deposits with original maturity of less than three months when acquired	1,796	1,791
	<u>22,607</u>	<u>37,031</u>

Notes to Condensed Consolidated Financial Statements

30 June 2011

1. CORPORATE INFORMATION

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

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 were authorised for issue in accordance with a resolution of the Board on 26 August 2011.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 of the Listing Rules.

The unaudited interim condensed consolidated 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 2010.

The accounting policies and basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010 and in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs, and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except that the Group has in the current period applied, for the first time, the following new and revised HKFRSs:

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Tax - Deferred Tax: Recovery of Underlying Assets</i> (early adoption)
HKAS 24 (Revised)	<i>Related Party Disclosures</i>

Notes to Condensed Consolidated Financial Statements

30 June 2011

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

HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation</i> – <i>Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Apart from the above, the Group has also adopted *Improvements to HKFRSs 2010** issued by the HKICPA which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wordings.

* *Improvements to HKFRSs 2010* contain amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13.

Other than as further explained below regarding the impact of HKAS 12 Amendments and an amendment to HKAS 34 included in *Improvements to HKFRSs 2010*, the adoption of these new and revised HKFRSs has had no significant financial effect on these unaudited interim condensed consolidated financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Early Adoption of Amendments to HKAS 12 *Income Tax - Deferred Tax: Recovery of Underlying Assets*

Amendments to HKAS 12 introduce a rebuttable presumption that deferred tax on investment property measured using the fair value model in HKAS 40 *Investment Property* should be determined on the basis that its carrying amount will be recovered through sale. Although the amendments are effective for annual periods beginning on or after 1 January 2012, the Group and its associates have decided to early adopt the amendments in the unaudited interim condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

30 June 2011

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

(a) Early Adoption of Amendments to HKAS 12 *Income Tax - Deferred Tax: Recovery of Underlying Assets* *(continued)*

As a result of the change in accounting policy arising from amendments to HKAS 12, the Group and its associates now measure any deferred tax liability arising from the fair value changes of their investment properties using tax rate that would apply on recovery of the assets through sale, rather than through use as applied prior to adoption of these amendments. This change in accounting policy has been applied retrospectively and the effects of the early adoption of the above amendments to the Group are summarised as follows:

	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<i>Consolidated income statement for the six months ended 30 June</i>		
Increases in share of profits and losses of associates	17,058	9,639
Decrease in income tax	495	330
	<hr/>	<hr/>
Increase in profit for the period attributable to equity holders of the Company	<u>17,553</u>	<u>9,969</u>
	<hr/>	<hr/>
Increase in basic and diluted earnings per share attributable to ordinary equity holders of the Company	<u>HK 0.19 cents</u>	<u>HK 0.11 cents</u>

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Unaudited) HK\$'000	1 January 2010 (Unaudited) HK\$'000
<i>Consolidated statement of financial position at the end of the reporting period</i>			
Increase in investments in associates	87,372	70,314	49,642
Decrease in deferred tax liabilities	3,201	2,706	1,881
	<hr/>	<hr/>	<hr/>
Increase in retained profits	<u>90,573</u>	<u>73,020</u>	<u>51,523</u>

Due to the retrospective application of the amendments which has resulted in the restatement of items in the consolidated statement of financial position, a consolidated statement of financial position as at 1 January 2010, and the related notes affected by the amendments are presented in these unaudited interim condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

30 June 2011

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

(b) Amendment to HKAS 34 *Interim Financial Reporting*

Amendment to HKAS 34 requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in the unaudited interim condensed consolidated financial statements. The respective disclosures requirements have been set out in note 15.

Except for the amendments to HKAS 12 *Income Tax - Deferred Tax: Recovery of Underlying Assets* as explained above, the Group has not early applied any new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited interim condensed consolidated financial statements. However, the Group is in the process of making an assessment of the impact of other new and revised HKFRSs, that have been issued but not yet effective, upon initial application. So far, the Group considers that the adoptions of these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

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

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

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

Notes to Condensed Consolidated Financial Statements

30 June 2011

3. OPERATING SEGMENT INFORMATION *(continued)*

Information regarding the Group's reportable segments, together with their related revised comparative information, is presented below:

For the six months ended 30 June 2011

	Treasury investment (Unaudited) <i>HK\$'000</i>	Property and infrastructure investment (Unaudited) <i>HK\$'000</i>	Others (Unaudited) <i>HK\$'000</i>	Reportable segments total (Unaudited) <i>HK\$'000</i>	Adjustments (Note) (Unaudited) <i>HK\$'000</i>	Consolidated (Unaudited) <i>HK\$'000</i>
Segment revenue:						
Revenue	2,464	77,299	—	79,763	(77,299)	2,464
Other income and gains	10,416	304,153	4,463	319,032	(304,153)	14,879
Total revenue and gains	<u>12,880</u>	<u>381,452</u>	<u>4,463</u>	<u>398,795</u>	<u>(381,452)</u>	<u>17,343</u>
Segment profit/(loss) for the period	<u>(91,968)</u>	<u>363,008</u>	<u>1,944</u>	<u>272,984</u>	<u>(239,077)</u>	33,907
Corporate and unallocated expenses, net						<u>(7,373)</u>
Profit for the period						<u>26,534</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 2011

3. OPERATING SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2010

	Treasury investment (Unaudited) <i>HK\$'000</i>	Property and infrastructure investment (Unaudited) <i>HK\$'000</i> (Restated)	Others (Unaudited) <i>HK\$'000</i> (Restated)	Reportable segments total (Unaudited) <i>HK\$'000</i> (Restated)	Adjustments (Note) (Unaudited) <i>HK\$'000</i> (Restated)	Consolidated (Unaudited) <i>HK\$'000</i> (Restated)
Segment revenue:						
Revenue	6,731	70,077	—	76,808	(70,077)	6,731
Other income and gains	13,504	171,310	2,670	187,484	(171,310)	16,174
Total revenue and gains	<u>20,235</u>	<u>241,387</u>	<u>2,670</u>	<u>264,292</u>	<u>(241,387)</u>	<u>22,905</u>
Segment profit/(loss) for the period	<u>(41,357)</u>	<u>288,360</u>	<u>133</u>	<u>247,136</u>	<u>(189,915)</u>	<u>57,221</u>
Corporate and unallocated expenses, net						<u>(8,893)</u>
Profit for the period						<u>48,328</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.

The Group's revenue from each product or service is set out in note 4.

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

Notes to Condensed Consolidated Financial Statements

30 June 2011

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of net gains/(losses) on disposal of listed equity investments at fair value through profit or loss, dividend income from listed equity investments at fair value through profit or loss, and interest income from convertible notes and loans receivable during the period.

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

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue		
Gains/(losses) on disposal of listed equity investments at fair value through profit or loss, net	563	(842)
Dividend income from listed equity investments at fair value through profit or loss	279	6,716
Interest income from convertible notes and loans receivable	1,622	857
	<u>2,464</u>	<u>6,731</u>
Other income and gains		
Gross rental income	451	340
Interest income on bank deposits	22	5
Fair value gains on conversion option derivatives	—	303
Dividend income from available-for-sale investments	10,377	8,390
Fair value gains on investment properties	3,000	2,000
Gain on early redemption of an available-for-sale investment	—	4,763
Gain on disposal of an item of property and equipment	25	—
Others	1,004	373
	<u>14,879</u>	<u>16,174</u>

5. OTHER EXPENSES

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Fair value losses, net:		
Listed equity investments at fair value through profit or loss	74,943	34,418
Conversion option derivatives	2,467	—
	<u>77,410</u>	<u>34,418</u>

Notes to Condensed Consolidated Financial Statements

30 June 2011

6. FINANCE COSTS

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest on bank loans	<u>573</u>	<u>277</u>

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Depreciation	<u>1,363</u>	<u>1,914</u>

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000 (Restated)
Hong Kong Deferred tax charge	<u>13</u>	<u>4</u>

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

The share of tax attributable to associates amounting to HK\$3,031,000 (2010 (restated): HK\$2,461,000) is included in "Share of profits and losses of associates" on the face of the Consolidated Income Statement.

Notes to Condensed Consolidated Financial Statements

30 June 2011

9. DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

During the six months ended 30 June 2011, a final dividend of HK\$0.002 per ordinary share for 2010, amounting to HK\$18,611,000 (six months ended 30 June 2010: HK\$0.002 per ordinary share for 2009, amounting to HK\$18,611,000) was declared and paid to the shareholders of the Company.

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

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

No adjustment has been made to the basic earnings per share amount presented for the periods ended 30 June 2011 and 30 June 2010 as the Group had no potentially dilutive ordinary shares in issue during these periods.

The calculation of basic and diluted earnings per share is based on:

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculation	<u>26,534</u>	<u>48,328</u>
	Number of shares	
	Six months ended 30 June	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	<u>9,305,276,756</u>	<u>9,305,276,756</u>

Notes to Condensed Consolidated Financial Statements

30 June 2011

11. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2011, the Group incurred HK\$21,000 (2010: HK\$2,985,000) on the acquisition of items of property and equipment.

12. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	752	903
In the second to fifth years, inclusive	53	373
	<u>805</u>	<u>1,276</u>

(b) As lessee

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	902	1,114
In the second to fifth years, inclusive	1,014	1,483
	<u>1,916</u>	<u>2,597</u>

Notes to Condensed Consolidated Financial Statements

30 June 2011

13. COMMITMENTS

At the end of the reporting period, neither the Group nor the Company has any significant commitments (31 December 2010: Nil).

14. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Short term employee benefits	7,180	6,680
Post-employment benefits	30	30
Total compensation paid to key management personnel	<u>7,210</u>	<u>6,710</u>

15. FAIR VALUE HIERARCHY

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

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

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

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

Notes to Condensed Consolidated Financial Statements

30 June 2011

15. FAIR VALUE HIERARCHY *(continued)*

Assets measured at fair value

Group

At 30 June 2011

	Level 1 (Unaudited) HK\$'000	Level 2 (Unaudited) HK\$'000	Level 3 (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
An available-for-sale equity investment	742,380	—	—	742,380
Listed equity investments at fair value through profit or loss	280,877	—	—	280,877
Conversion option derivatives	—	944	—	944
	<u>1,023,257</u>	<u>944</u>	<u>—</u>	<u>1,024,201</u>

At 31 December 2010

	Level 1 (Audited) HK\$'000	Level 2 (Audited) HK\$'000	Level 3 (Audited) HK\$'000	Total (Audited) HK\$'000
An available-for-sale equity investment	666,108	—	—	666,108
Listed equity investments at fair value through profit or loss	326,786	—	—	326,786
Conversion option derivatives	—	3,858	—	3,858
	<u>992,894</u>	<u>3,858</u>	<u>—</u>	<u>996,752</u>

During the six months ended 30 June 2011, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

16. COMPARATIVE AMOUNTS

As further explained in note 2, due to early adoption of Amendments to HKAS 12 during the period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with current period's presentation and accounting treatment, and a third consolidated statement of financial position as at 1 January 2010 has been presented.

17. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved by the Board on 26 August 2011.