



YUGANG

YUGANG INTERNATIONAL LIMITED

Stock Code: 613

INTERIM REPORT

2012

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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. Leung Yu Ming, Steven
Mr. Ng Kwok Fu

COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

AUTHORISED REPRESENTATIVES

Mr. Cheung Chung Kiu
Mr. Yuen Wing Shing

COMPANY SECRETARY

Mr. 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 Solicitors

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

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

STOCK CODE

613

Management Discussion and Analysis

The board (the "Board") of directors (the "Directors") of Yugang International Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2012.

RESULTS

The Group recorded profit attributable to equity shareholders of the Company of HK\$77.0 million for the six months ended 30 June 2012, representing an increase of HK\$50.5 million from the low level of HK\$26.5 million of last corresponding period. It was mainly attributable to an unrealized fair value gain of HK\$20.9 million on securities investment for the period against a significant unrealized fair value loss of HK\$74.9 million for the last corresponding period. The big change of profit in percentage for the period was a result of a relatively small amount of profit made in the last corresponding period even though the amount of change was not relatively significant.

Basic earnings per share for the six months ended 30 June 2012 was HK0.83 cents, whereas basic earnings per share of HK0.29 cents were recorded for the last corresponding period.

BUSINESS REVIEW

During the period under review, Hong Kong's economy grew moderately as the export declined with weak external demand. China's economic growth also slowed down to GDP below 8%. However, the central government of Mainland China placed higher priority on "maintaining growth" and took proactive measures to stimulate economic growth. The People's Bank of China announced an interest rate cut in June which signaled an easing of monetary policy adopted by Mainland China. It therefore provided support to investors' confidence and stabilized the stock market with an overall improvement for the period as compared with the last corresponding period. As we mentioned in the last published annual report, the Group's performance was likely to be fluctuated in line with the performance of the financial market. Therefore, it could be expected that the Group was able to record a mild fair value gain on the securities investment for the period as compared with significant fair value loss in the last corresponding period.

Although local economy faced with uncertainties including European sovereign debt crisis, the domestic consumer spending remained strong as low unemployment and strong income growth of Hong Kong were being maintained throughout the period. It enabled the Group's property investment and infrastructure business segment to maintain a stable growth in rental and toll income for the period.

Management Discussion and Analysis

Property Investment and Infrastructure Business

Property Investment Business

The property investment business of the Group was carried out through the Group's 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 of Y. T. Realty include the whole block of Century Square and Prestige Tower, both situate in the core of Central District and Tsimshatsui respectively.

Despite a slowdown in leasing activities of Hong Kong during the first half of 2012 as a result of the global economic uncertainties, the demand for office or retail space in prime location continued strong and remained its uptrend driven by low vacancy rate and strong demand from international brand retailers expanding in Hong Kong. The growth of Mainland tourists' arrival remained a key contributor to the rental growth for the period. With a beauty facade of the investment properties in prime location, Y. T. Realty successfully attracted quality tenants with favorable rent and thereby enhanced the overall rental rate of the properties during the period. The overall occupancy rate of the properties was maintained at over 97% for the period.

Rental income of Y. T. Realty for the six months ended 30 June 2012 amounted to HK\$82.7 million, representing an increase of 13.1% from the last corresponding period. A fair value gain on revaluation of investment properties for the period was HK\$111.5 million whereas a fair value gain of HK\$303.1 million was recorded for the last corresponding period. It indicated that the growth of capital value of investment properties for the period was decelerated as compared to the last corresponding period. The net profit after tax and non-controlling interests of Y. T. Realty for the period was HK\$252.7 million, representing a decrease of HK\$110.3 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 a stable stream of toll income.

Given a strong domestic consumption during the first half of 2012, the average daily throughput of both Western Harbour Tunnel and Tate's Cairn Tunnel continued to grow satisfactorily over the last corresponding period. The net profit after tax and non-controlling interests of Cross-Harbour for the period was HK\$194.8 million, representing an increase of HK\$29.0 million or 17.5% from the last corresponding period. It was mainly attributable to a robust growth of contribution from tunnel operations for the period.

Management Discussion and Analysis

Treasury Investment Business

During the period under review, the performance of the Group's treasury investment has improved significantly as the stock market rebounded from the end of last financial year. Against a significant fair value loss of HK\$74.9 million on securities investment made for the last corresponding period, the Group recorded a fair value gain of HK\$20.9 million on securities investment for the period which was consistent with the statement made in the last published annual report that the Group's treasury investment was correlated with the fluctuation of the stock market. The net changes in fair value gain or loss on securities investment were therefore significant when there was a stock market reversal.

OUTLOOK

Looking forward, the Group is cautiously optimistic about the current year's performance.

As low level of vacancy and sustained demand for retail and office space will continue to support rental growth, it is expected that Y. T. Realty will maintain a satisfactory growth in rental income for the year. Apart from a material drop of property revaluation gain from previous year, the Group believes that 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 for the year.

The substantial loss of HK\$670.4 million in 2011 was mainly attributable to an unrealized fair value loss of HK\$169.6 million on securities investment and an impairment of HK\$548.8 million for an available-for-sale investment, with the latter being a cumulative impairment of an available-for-sale investment since the inception date of reclassification in 2006. As the investment portfolio of the Group has been kept at a relatively low level, such material unrealized loss on securities investment and substantial impairment on available-for-sale investment are not expected to happen in current year. As a result, the Group expects the overall performance for the current year to be improved substantially from that of previous financial year.

FINANCIAL REVIEW

Comprehensive Income

The Group recorded other comprehensive income of HK\$111.7 million for the six months ended 30 June 2012, representing an increase of 49% from the last corresponding period. It was mainly attributable to a fair value gain of HK\$105.5 million on available-for-sale investment of the Group for the period whereas a fair value gain of HK\$76.3 million on available-for-sale investment was recorded for the last corresponding period.

Net Asset Value

As at 30 June 2012, the unaudited consolidated net asset value of the Group was HK\$2,217.2 million and the unaudited consolidated net asset value per share was HK\$0.238.

Management Discussion and Analysis

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.

Liquidity and Financial Resources

As at 30 June 2012, the Group's cash, bank balances, short term bank deposits (excluding pledged time deposits) and listed securities investment totaled HK\$173.2 million. The Group maintained the current ratio at 1.1. The Group had short term bank borrowings of HK\$140.0 million which were denominated in Hong Kong dollars and undrawn short-term banking facilities of approximately HK\$122.0 million.

Taking into account the financial resources available to the Group, including internally generated funds and committed banking facilities, the Group has adequate working capital to meet its present requirements.

Gearing Ratio

As at 30 June 2012, the gearing ratio of the Group, as measured by dividing the net debt to shareholders' equity, was 6.1%. 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 2012.

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 Assets

As at 30 June 2012, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$72.5 million and time deposits of approximately HK\$9.4 million as securities for general banking facilities granted to the Group.

Management Discussion and Analysis

Comments on Segment Information

Discussion and comments on the Group's segments, including the changes and development, were discussed 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 introduced that had significantly affected the Group's performance.

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 a carrying value of HK\$1,627.8 million as at 30 June 2012. The profit for the period attributable to equity holders of Y. T. Realty was HK\$252.7 million whereas the Group's share of profits was HK\$86.3 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 2012, the carrying value of C C Land was stated at fair value of HK\$481.7 million, representing an increase of HK\$115.6 million for the period. It included a fair value gain of HK\$105.5 million which 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 earned a dividend income of HK\$10.2 million from C C Land for the period.

Save as disclosed above, there were no other significant investments held, material acquisitions, or disposals of subsidiaries during the period under review. There were no plan authorized by the Board for other material investments or additions of capital assets as at the date of this interim report.

Changes since 31 December 2011

There was significant improvement in the Group's performance of treasury investment since 31 December 2011 as the substantial impairment of available-for-sale investment reported in the last financial year was not incurred during the six months ended 30 June 2012. Further details are set out in the section headed "Business Review" and "Outlook".

Save as disclosed herein, there were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the last published annual report.

Management Discussion and Analysis

OPERATIONAL REVIEW

Human Resources

The Group's remuneration policy is to ensure fair and competitive packages based on business needs and industry practice. The Company aims to provide incentives to Directors, senior management and employees to perform at their highest levels as well as to attract, retain and motivate the very best people. Remuneration will be determined by taking into consideration factors such as inflation, economic situation and salaries paid by comparable companies. In addition, performance-based assessment such as individual's potential and contribution to the Group, time commitment and responsibilities undertaken will also be considered.

The Group employed 43 permanent employees. The Group's total remuneration costs amounted to HK\$14.7 million for the six months ended 30 June 2012 (2011: HK\$14.3 million).

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.

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

ADDITIONAL INFORMATION

Corporate Governance

The Company is committed to achieving and maintaining high standards of corporate governance. The Company has fully complied with all code provisions set out in the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")) during the period of 1 January 2012 to 31 March 2012. Except for deviation of code provision D.1.4. with reasons explained hereunder, the Company has complied with code provisions set out in the new edition of the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the period of 1 April 2012 to 30 June 2012.

In respect of code provision D.1.4, the Company does not have formal letters of appointment for Directors setting out key terms and conditions of their appointment. The Company is of the view that the current arrangement is more appropriate and flexible, particularly in light of the current business activities and operational structure of the Company. All Directors have been serving the Company for sufficiently long period of time and a clear understanding of terms and conditions of their appointment already exists between the Company and Directors. Additionally, each Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years pursuant to Bye-laws of the Company.

Management Discussion and Analysis

Compliance with Model Code

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 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 2012, complied with the required standard set out in Model Code and Directors Securities Dealings Code.

Changes in Directors’ Information

Pursuant to Rule 13.51(2) and 13.51B(1) of the Listing Rules, changes in information of Directors subsequent to the last published annual report are set out below:

1. Mr Lee Ka Sze, Carmelo was appointed a member of SFC (HKEC Listing) Committee as from 1 April 2012 to 31 March 2013;
2. Mr Lee Ka Sze, Carmelo was appointed a member and the Chairman of the Main Board and GEM Board Listing Committees of the Stock Exchange on 4 May 2012.

Save as disclosed herein, there is no change in information of Directors which are required to be disclosed pursuant to Rule 13.51(2) and 13.51B(1) of the Listing Rules.

Audit Committee

The audit committee of the Company has reviewed the 2012 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 2012 (2011: Nil).

Purchase, Sale or Redemption of the Company’s Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2012.

Disclosure of Interests

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2012, the interests and short positions of Directors and 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	30,000,000	0.32

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

Disclosure of Interests

Notes:

- (1) Out of 4,046,389,740 shares, 3,194,434,684 shares are held by Chongqing Industrial Limited (“Chongqing”) and 851,955,056 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 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 are 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 2012, none of Directors or chief executive of the Company 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 2012, 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 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 2012, 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 extend our gratitude and sincere appreciation to the management and all staff for their diligence and dedication to the Group throughout the period.

On behalf of the Board
Yugang International Limited
Yuen Wing Shing
Managing Director

Hong Kong, 27 August 2012

Consolidated Income Statement

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
REVENUE	4	(3,299)	2,464
Other income and gains	4	35,443	14,879
Administrative expenses		(36,401)	(36,744)
Other expenses	5	(3,510)	(77,410)
Finance costs	6	(1,473)	(573)
Share of profits and losses of associates		86,269	123,931
PROFIT BEFORE TAX	7	77,029	26,547
Income tax	8	(13)	(13)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>77,016</u>	<u>26,534</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic and diluted		<u>HK0.83 cents</u>	<u>HK0.29 cents</u>

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 2012

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD	<u>77,016</u>	<u>26,534</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Changes in fair value of available-for-sale investments	105,457	76,272
Share of other comprehensive income/(loss) of associates	<u>6,233</u>	<u>(1,293)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	<u>111,690</u>	<u>74,979</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	<u><u>188,706</u></u>	<u><u>101,513</u></u>

Consolidated Statement of Financial Position

30 June 2012

	<i>Note</i>	30 June 2012 (Unaudited) <i>HK\$'000</i>	31 December 2011 (Audited) <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property and equipment	11	52,162	52,402
Investment properties		31,400	27,600
Investments in associates		1,627,821	1,543,509
Convertible notes receivable - loan portion		7,259	6,515
Loans receivable		3,000	4,000
Available-for-sale investments		481,732	366,105
Other assets		360	360
Total non-current assets		<u>2,203,734</u>	<u>2,000,491</u>
CURRENT ASSETS			
Listed equity investments at fair value through profit or loss		162,349	161,885
Embedded option derivatives		283	3,793
Loans receivable		1,000	1,000
Prepayments, deposits and other receivables		5,869	5,855
Pledged time deposits		9,419	9,411
Time deposits		1,798	1,797
Cash and bank balances		9,078	10,191
Total current assets		<u>189,796</u>	<u>193,932</u>
CURRENT LIABILITIES			
Other payables and accruals		6,713	21,325
Interest-bearing bank loans		140,000	115,000
Tax payable		29,463	29,463
Total current liabilities		<u>176,176</u>	<u>165,788</u>
NET CURRENT ASSETS		<u>13,620</u>	<u>28,144</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,217,354</u>	<u>2,028,635</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		180	167
Net assets		<u>2,217,174</u>	<u>2,028,468</u>
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		93,053	93,053
Reserves		2,124,121	1,935,415
Total equity		<u>2,217,174</u>	<u>2,028,468</u>

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	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 2012	93,053	907,280*	760,799*	—*	(13,994)*	281,330*	2,028,468
Profit for the period	—	—	—	—	—	77,016	77,016
Other comprehensive income for the period:							
Changes in fair value of available-for-sale investments	—	—	—	105,457	—	—	105,457
Share of other comprehensive income of associates	—	—	—	—	6,233	—	6,233
Total comprehensive income for the period	—	—	—	105,457	6,233	77,016	188,706
At 30 June 2012	<u>93,053</u>	<u>907,280*</u>	<u>760,799*</u>	<u>105,457*</u>	<u>(7,761)*</u>	<u>358,346*</u>	<u>2,217,174</u>
At 1 January 2011	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	<u>93,053</u>	<u>907,280</u>	<u>760,799</u>	<u>(172,553)</u>	<u>868</u>	<u>978,303</u>	<u>2,567,750</u>

* These reserve accounts comprise the consolidated reserves of HK\$2,124,121,000 (31 December 2011: HK\$1,935,415,000) in the consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(32,372)	(65,485)
NET CASH FLOWS FROM INVESTING ACTIVITIES	7,734	19,192
NET CASH FLOWS FROM FINANCING ACTIVITIES	23,526	25,845
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,112)	(20,448)
Cash and cash equivalents at beginning of period	11,988	43,055
CASH AND CASH EQUIVALENTS AT END OF PERIOD	10,876	22,607
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	9,078	20,811
Non-pledged time deposits with original maturity of less than three months when acquired	1,798	1,796
	10,876	22,607

Notes to Condensed Consolidated Financial Statements

30 June 2012

1. CORPORATE INFORMATION

Yugang International Limited (the “Company”) 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 to the condensed consolidated financial statements.

The unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2012 were authorised for issue in accordance with a resolution of the board of directors on 27 August 2012.

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 2011.

The accounting policies and basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2011, which have been prepared 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 revised HKFRSs:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>

Notes to Condensed Consolidated Financial Statements

30 June 2012

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

The adoption of these revised HKFRSs has had no significant financial effect on these unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these unaudited interim condensed consolidated financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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, earns 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 the trading of scrap metals and other materials, and other investments.

The management of the Company 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 unaudited interim condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

30 June 2012

3. OPERATING SEGMENT INFORMATION *(continued)*

Information regarding the Group's reportable segments is presented below:

For the six months ended 30 June 2012

	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	(3,299)	87,705	—	84,406	(87,705)	(3,299)
Other income and gains	31,131	112,567	4,312	148,010	(112,567)	35,443
Total revenue and gains	<u>27,832</u>	<u>200,272</u>	<u>4,312</u>	<u>232,416</u>	<u>(200,272)</u>	<u>32,144</u>
Segment profit/(loss) for the period	<u>(3,835)</u>	<u>252,696</u>	<u>1,653</u>	<u>250,514</u>	<u>(166,427)</u>	<u>84,087</u>
Corporate and unallocated expenses, net						<u>(7,071)</u>
Profit for the period						<u>77,016</u>

Notes to Condensed Consolidated Financial Statements

30 June 2012

3. OPERATING SEGMENT INFORMATION *(continued)*

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>	<u>33,907</u>
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.

The Group's revenue is set out in note 4 to the condensed consolidated financial statements.

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 2012

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of the net gains or 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	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Gains/(losses) on disposal of listed equity investments at fair value through profit or loss, net	(4,367)	563
Dividend income from listed equity investments at fair value through profit or loss	222	279
Interest income from convertible notes and loans receivable	846	1,622
	<u>(3,299)</u>	<u>2,464</u>
Other income and gains		
Gross rental income	512	451
Interest income on bank deposits	25	22
Fair value gains on listed equity investments at fair value through profit or loss, net	20,936	—
Dividend income from available-for-sale investments	10,170	10,377
Fair value gains on investment properties	3,800	3,000
Gain on disposal of an item of property and equipment	—	25
Others	—	1,004
	<u>35,443</u>	<u>14,879</u>

Notes to Condensed Consolidated Financial Statements

30 June 2012

5. OTHER EXPENSES

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fair value losses, net:		
Listed equity investments at fair value through profit or loss	—	74,943
Embedded option derivatives	3,510	2,467
	<u>3,510</u>	<u>77,410</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	<u>1,473</u>	<u>573</u>

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	<u>1,457</u>	<u>1,363</u>

Notes to Condensed Consolidated Financial Statements

30 June 2012

8. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2012 as the Group did not generate any assessable profits arising in Hong Kong during the period (2011:Nil).

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Deferred tax charge for the period – Hong Kong	<u>13</u>	<u>13</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\$3,573,000 (2011: HK\$3,031,000) 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 an interim dividend for the six months ended 30 June 2012 (2011: Nil).

No dividend was paid during the six months ended 30 June 2012. In respect of the last corresponding period, a final dividend of HK\$0.002 per ordinary share for 2010, amounting to HK\$18,611,000, was declared and paid to the shareholders of the Company.

Notes to Condensed Consolidated Financial Statements

30 June 2012

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 2012 and 30 June 2011 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	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculation	<u>77,016</u>	<u>26,534</u>
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>

11. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2012, the Group incurred HK\$1,217,000 (2011: HK\$21,000) on the acquisition of items of property and equipment.

Notes to Condensed Consolidated Financial Statements

30 June 2012

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 2012 (Unaudited) <i>HK\$'000</i>	31 December 2011 (Audited) <i>HK\$'000</i>
Within one year	460	779
In the second to fifth years, inclusive	<u>153</u>	<u>356</u>
	<u>613</u>	<u>1,135</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 2012 (Unaudited) <i>HK\$'000</i>	31 December 2011 (Audited) <i>HK\$'000</i>
Within one year	981	1,069
In the second to fifth years, inclusive	<u>78</u>	<u>546</u>
	<u>1,059</u>	<u>1,615</u>

Notes to Condensed Consolidated Financial Statements

30 June 2012

13. COMMITMENTS

At the end of the reporting period, the Group did not have any significant commitments (31 December 2011: Nil).

14. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2012 (Unaudited) <i>HK\$'000</i>	2011 (Unaudited) <i>HK\$'000</i>
Short term employee benefits	7,310	7,180
Post-employment benefits	31	30
Total compensation paid to key management personnel	<u>7,341</u>	<u>7,210</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 2012

15. FAIR VALUE HIERARCHY *(continued)*

Assets measured at fair value

Group

At 30 June 2012

	Level 1 (Unaudited) <i>HK\$'000</i>	Level 2 (Unaudited) <i>HK\$'000</i>	Level 3 (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Available-for-sale investments	481,732	—	—	481,732
Listed equity investments at fair value through profit or loss	162,349	—	—	162,349
Embedded option derivatives	—	283	—	283
	<u>644,081</u>	<u>283</u>	<u>—</u>	<u>644,364</u>

At 31 December 2011

	Level 1 (Audited) <i>HK\$'000</i>	Level 2 (Audited) <i>HK\$'000</i>	Level 3 (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Available-for-sale investments	366,105	—	—	366,105
Listed equity investments at fair value through profit or loss	161,885	—	—	161,885
Embedded option derivatives	—	3,793	—	3,793
	<u>527,990</u>	<u>3,793</u>	<u>—</u>	<u>531,783</u>

During the six months ended 30 June 2012, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2011:Nil).

16. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved by the Board on 27 August 2012.