

YUGANG

YUGANG INTERNATIONAL LIMITED

Stock Code: 00613



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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 Director

Mr. Lee Ka Sze, Carmelo

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

Nomination Committee

Mr. Cheung Chung Kiu (*Chairman*)
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

Executive Committee

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

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

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Hamilton HM11
Bermuda

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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6 Front Street
Hamilton HM11
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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WEBSITE ADDRESS

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STOCK CODE

00613

Management Discussion and Analysis

The board (the "Board") of directors (the "Director(s)") 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 2013.

RESULTS

The Group recorded a profit attributable to equity shareholders of HK\$61.6 million for the six months ended 30 June 2013, representing a decrease of HK\$15.4 million from the last corresponding period. It was mainly attributable to a decrease of unrealized fair value gain on securities investment and share of results of an associate for the period. During the period, the Group recorded an unrealized fair value gain on securities investment of HK\$8.5 million, representing a decrease of HK\$12.4 million from the last corresponding period. The Group's share of results of an associate was HK\$77.9 million for the period, representing a decrease of HK\$8.4 million from the last corresponding period.

Basic earnings per share for the six months ended 30 June 2013 was HK0.66 cents, whereas basic earnings per share of HK0.83 cents were recorded for the last corresponding period.

BUSINESS REVIEW

During the period under review, the global economy showed a path of gradual recovery. The U.S. property sector continued to recover which has brought to an accelerating momentum of U.S. economic growth. China's economy moved differently as new leaders shifted their focus to economic reforms with an attempt to resolve the government debt, shadow banking and other structural problems. However, it takes time for the economic reforms filtering through to the economy and bringing an impact on economic growth. Hence, the GDP growth of China was slowdown in the short term.

Hong Kong's economy grew moderately during the period because the export, retail and investments were all affected by the economic slowdown of Mainland China. However, domestic consumption remained robust and became the main growth driver of Hong Kong's economy. Local investment was further dampened following the introduction of various new measures to cool down the property market by the Hong Kong government. The local financial market became volatile during the period as it was hit by various uncertainties including the possibilities of economic hard-landing of China, as well as worries of a halt in bond purchases program by the U.S. Federal Reserve.

Property Investment and Infrastructure Business

Property Investment Business

The Group is carrying on its property investment business through Y. T. Realty Group Limited ("Y. T. Realty") which is an associate of the Group and the shares of which are traded on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal 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.

The leasing activities of Hong Kong were inevitably affected by the tightening policies of the government to cool down the property market during the first half of 2013. However, the demand for office or retail space in prime location was less affected due to low vacancy rate and strong demand from international brand retailers expanding in Hong Kong. The Mainland tourists' arrival remained a growth driver to support the rental for the period. With a beauty facade of the investment properties in prime location, Y. T. Realty was able to attract quality tenants with favorable rent and hence, maintain a reasonable rental yield during the period. The overall occupancy rate of properties was maintained at over 98% for the period.

Rental income of Y. T. Realty for the six months ended 30 June 2013 amounted to HK\$95.4 million, representing an increase of 15.3% from the last corresponding period. However, a fair value gain on revaluation of investment properties for the period was HK\$77.1 million, representing a decrease of HK\$34.4 million from 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 of Y. T. Realty for the period was HK\$228.2 million, representing a decrease of HK\$24.5 million from the last corresponding period.

Management Discussion and Analysis

Infrastructure Business

The infrastructure business of the Group comprises investments in tunnels, transports and logistic operations. It is carrying on 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% and 39.5% equity interests in Western Harbour Tunnel Company Limited and Tate’s Cairn Tunnel Company Limited respectively, both of which generate a stable stream of toll income.

Given domestic consumption remained strong and benefited by the moderate price adjustment, the overall toll income of tunnel operations for the period had recorded a moderate growth over the last corresponding period. However, the volatility of the local stock market affected the overall performance of treasury investment of Cross-Harbour for the period. The net profit after tax and non-controlling interests of Cross-Harbour for the period was HK\$192.3 million, representing a decrease of HK\$2.5 million or 1.3% from the last corresponding period.

Treasury Investment Business

During the period under review, the financial markets were volatile due to the U.S. Federal Reserve’s pronouncement to taper bond purchases program at earlier stage and the slowdown of China’s economy resulted from the absence of any stimulation policies to the economic reforms. In addition, the fear of liquidity crunch in China’s interbank market brought about a slump in asset prices of financial market near the end of June. Contrasted to the closing of Hang Seng Index of 20,803 at the end of June which was a decrease of 8.2% from the end of last December, the Group’s securities investment still recorded a satisfactory performance with a total realized disposal gain and unrealized fair value gain of HK\$9.0 million for the period.

OUTLOOK

Looking forward, the Group is cautious about current year’s performance.

As Y. T. Realty repositioned its investment properties portfolio to an up-market fashion hub in prior years, it has successfully attracted more famous brands or oversea retailers with favorable rent. The tenant base has been strengthened to provide a stable growth of rental income. Therefore, the Group expects that the office and retail demand for its investment properties can be sustained for current year, provided a growing number of Mainland tourists’ arrival and strong domestic consumption being maintained.

In July, the central government of China pronounced a new directive measure to maintain bottom-line GDP. The market’s anticipation of launching some policies by the central government to sustain the economic growth if GDP approaches the bottom line has led to a rebound in stock market. However, we are cautious about the stock market as many uncertainties still remain in the second half of 2013, including the absence of definite withdrawal timetable of U.S. quantitative easing monetary policy, remaining threat of European debt crisis to global economic recovery and potential impact of China’s tightening policy. In addition, the Group is cautious about the operating performance for the current year as it is positively correlated with the performance of the stock market.

FINANCIAL REVIEW

Other Comprehensive Income

The Group recorded an other comprehensive loss of HK\$136.4 million for the six months ended 30 June 2013 whereas an other comprehensive income of HK\$111.7 million was recorded for the last corresponding period. It was mainly attributable to a fair value loss of HK\$130.2 million on available-for-sale investment of the Group for the period whereas a fair value gain of HK\$105.5 million on available-for-sale investment was recorded for the last corresponding period.

Management Discussion and Analysis

Net Asset Value

As at 30 June 2013, the unaudited consolidated net asset value of the Group was HK\$2,428.1 million and the unaudited consolidated net asset value per share was HK\$0.261.

Capital Structure

The Group's capital expenditure and investments were mainly funded from cash on hand, internally-generated funds 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 2013, the Group's cash, bank balances and time deposits (excluding pledged time deposits) was HK\$7.1 million. The above cash and cash equivalent and the listed securities investments in aggregate was HK\$189.6 million. The current ratio of the Group stood at 1.1.

The bank borrowings of the Group as at 30 June 2013 were HK\$215.0 million which comprised a term loan of HK\$60.0 million repayable within five years and short-term revolving loans of HK\$155.0 million. All bank loans were denominated in Hong Kong dollars.

The maturity profile of the Group's bank borrowings was set out as follows:

	HK\$
Due within one year	161,000,000
Due more than one year but not exceeding two years	10,000,000
Due more than two years but not exceeding five years	44,000,000
Total:	<u>215,000,000</u>

As at 30 June 2013, the Group had total undrawn short-term banking facilities of approximately HK\$45.0 million.

Gearing Ratio

As at 30 June 2013, the gearing ratio of the Group, as measured by dividing the net debt to shareholders' equity, was 8.8%. 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 2013.

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 4.6% 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.

Management Discussion and Analysis

Charge on Group Assets

As at 30 June 2013, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$77.1 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 the changes and development, were covered in the Business Review section. The operating results of each segment were 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, nor were there any introduction of new products or services 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\$1,776.4 million as at 30 June 2013. The profit for the period attributable to equity holders of Y. T. Realty was HK\$228.2 million whereas the Group's share of profits was HK\$77.9 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 2013, the carrying value of C C Land was stated at fair value of HK\$578.1 million, representing a fair value loss of HK\$130.2 million for the period and was reported as other comprehensive loss 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\$11.7 million from C C Land for the period.

Save as disclosed above, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the period under review. There were no plans 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 2012

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.

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 including economic situation and inflation. In addition, performance-based assessment such as individual's potential and contribution to the Group, time commitment, duties and responsibilities undertaken, employment conditions elsewhere in the Group and salaries paid by comparable companies will all be considered.

The Group has 39 working staff. The Group's total remuneration costs amounted to HK\$15.4 million for the six months ended 30 June 2013 (2012: HK\$14.7 million). There has been no material change in respect of the human resources policy as set out in 2012 Annual Report.

Management Discussion and Analysis

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 contained in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (“Listing Rules”) during the period of 1 January 2013 to 30 June 2013, except for deviation of code provision D.1.4 that 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. 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. The Board will review this arrangement in light of the evolving development of the Group’s business activities.

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 2013, complied with the required standard set out in Model Code and Directors Securities Dealings Code.

Changes in Information of Directors

Mr. Lee Ka Sze, Carmelo was appointed an independent non-executive director of Esprit Holdings Limited, a public company listed on the Stock Exchange (Stock code: 00330), on 25 July 2013. Other information of Mr. Lee is set out in the 2012 annual report.

Save as disclosed herein, upon specific enquiry by the Company and following confirmations from Directors, there is no change in information of Directors which are 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 2013 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 2013 (2012: 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 2013.

Disclosure of Interests

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2013, the interests and short positions of Directors and chief executive of the Company in the shares, underlying shares or 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 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 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

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 above, as at 30 June 2013, none of Directors or chief executive of the Company 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 required to be kept by the Company under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Disclosure of Interests

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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' and Chief Executive's Interests" and "Share Option Scheme" above, at no time during the period under review, the Company or any of its subsidiaries or its holding company, was a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of Directors, or any of their associates, held any interests in or was granted any rights to subscribe for shares of the Company, or had exercised any such rights.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2013, 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 in shares of the Company:

Name	Notes	Capacity and Nature of Interest	Number of Ordinary Shares Held	Percentage of 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 objects include 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 above, as at 30 June 2013, 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 recorded in the register required to be kept by the Company under Section 336 of the SFO; or as otherwise notified to the Company and the Stock Exchange.

APPRECIATION

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

By order of the Board
Yuen Wing Shing
Managing Director

Hong Kong, 26 August 2013

Consolidated Income Statement

For the six months ended 30 June 2013

	Notes	Six months ended 30 June	
		2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
REVENUE	4	1,677	(3,299)
Other income and gains	4	22,998	35,443
Administrative expenses		(36,033)	(36,401)
Other expenses	5	—	(3,510)
Impairment of an available-for-sale investment		(2,725)	—
Finance costs	6	(2,203)	(1,473)
Share of results of an associate		77,910	86,269
PROFIT BEFORE TAX	7	61,624	77,029
Income tax	8	(14)	(13)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		61,610	77,016
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic and diluted		HK0.66 cents	HK0.83 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 2013

	Six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	61,610	77,016
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Items that will be reclassified subsequently to the income statement when specific conditions are met:</i>		
Share of other comprehensive income/(loss) of an associate	(6,231)	6,233
Available-for-sale investments:		
Changes in fair value	(132,923)	105,457
Reclassification adjustment for an impairment loss included in the consolidated income statement	2,725	—
	(130,198)	105,457
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	(136,429)	111,690
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	(74,819)	188,706

Consolidated Statement of Financial Position

30 June 2013

	<i>Notes</i>	30 June 2013 (Unaudited) <i>HK\$'000</i>	31 December 2012 (Audited) <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property and equipment	11	52,266	52,693
Investment properties		37,000	35,000
Investment in an associate	12	1,776,388	1,714,264
Convertible notes receivable – loan portion		8,928	8,061
Loans receivable		2,000	3,000
Available-for-sale investments		587,399	720,322
Other assets		360	360
Total non-current assets		2,464,341	2,533,700
CURRENT ASSETS			
Listed equity investments at fair value through profit or loss		182,545	171,813
Embedded option derivatives		51	13
Loans receivable		1,000	1,000
Prepayments, deposits and other receivables		14,457	3,671
Pledged time deposits		9,445	9,426
Cash and bank balances		7,102	5,454
Total current assets		214,600	191,377
CURRENT LIABILITIES			
Other payables and accruals		6,122	22,453
Interest-bearing bank loans	13	161,000	170,000
Tax payable		29,463	29,463
Total current liabilities		196,585	221,916
NET CURRENT ASSETS/(LIABILITIES)		18,015	(30,539)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,482,356	2,503,161
NON-CURRENT LIABILITIES			
Deferred tax liabilities		222	208
Interest-bearing bank loan	13	54,000	—
Total non-current liabilities		54,222	208
Net assets		2,428,134	2,502,953
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		93,053	93,053
Reserves		2,335,081	2,409,900
Total equity		2,428,134	2,502,953

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	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 2013	93,053	907,280*	760,799*	332,001*	2,722*	407,098*	2,502,953
Profit for the period	—	—	—	—	—	61,610	61,610
Other comprehensive loss for the period	—	—	—	(130,198)	(6,231)	—	(136,429)
Total comprehensive income/(loss) for the period	—	—	—	(130,198)	(6,231)	61,610	(74,819)
At 30 June 2013	<u>93,053</u>	<u>907,280*</u>	<u>760,799*</u>	<u>201,803*</u>	<u>(3,509)*</u>	<u>468,708*</u>	<u>2,428,134</u>
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	—	—	—	105,457	6,233	—	111,690
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>

* These reserve accounts comprise the consolidated reserves of HK\$2,335,081,000 (31 December 2012: HK\$2,409,900,000) in the consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(49,659)	(32,372)
NET CASH FLOWS FROM INVESTING ACTIVITIES	8,451	7,734
NET CASH FLOWS FROM FINANCING ACTIVITIES	42,856	23,526
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,648	(1,112)
Cash and cash equivalents at beginning of period	5,454	11,988
CASH AND CASH EQUIVALENTS AT END OF PERIOD	7,102	10,876
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	7,102	9,078
Non-pledged time deposits with original maturity of less than three months when acquired	—	1,798
	7,102	10,876

Notes to Condensed Consolidated Financial Statements

30 June 2013

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 2013 were authorised for issue in accordance with a resolution of the board of directors on 26 August 2013.

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 consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2012.

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2012, 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 new and revised HKFRSs:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

The adoption of these new and revised HKFRSs has had no significant financial effect on the unaudited interim condensed consolidated financial statements. Nevertheless, certain changes in disclosures have been adopted by the Group in compliance with the following new and revised HKFRSs:

Notes to Condensed Consolidated Financial Statements

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

HKFRS 13 establishes a single source of guidance under HKFRSs for all fair value measurements. HKFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under HKFRSs when fair value is required or permitted. The application of HKFRS 13 has not materially impacted the fair value measurements carried out by the Group. HKFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including HKFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by HKAS 34.16A(j), thereby affecting the unaudited interim condensed consolidated financial statements. The Group provides these disclosures in note 18 to the condensed consolidated financial statements.

The HKAS 1 Amendments introduce a grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

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 on through Y. T. Realty, an associate of the Group, whilst the infrastructure investment activities are carried on 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 the Group's 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.

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3. OPERATING SEGMENT INFORMATION *(continued)*

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

For the six months ended 30 June 2013

	Treasury investment (Unaudited) HK\$'000	Property and infrastructure investment (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Reportable segments total (Unaudited) HK\$'000	Adjustments (Note) (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:						
Revenue	1,677	99,823	—	101,500	(99,823)	1,677
Other income and gains	20,266	77,884	2,732	100,882	(77,884)	22,998
Total revenue and gains	<u>21,943</u>	<u>177,707</u>	<u>2,732</u>	<u>202,382</u>	<u>(177,707)</u>	<u>24,675</u>
Segment profit/(loss) for the period	<u>(9,329)</u>	<u>228,206</u>	<u>2</u>	<u>218,879</u>	<u>(150,296)</u>	<u>68,583</u>
Corporate and unallocated expenses, net						<u>(6,973)</u>
Profit for the period						<u>61,610</u>

For the six months ended 30 June 2012

	Treasury investment (Unaudited) HK\$'000	Property and infrastructure investment (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Reportable segments total (Unaudited) HK\$'000	Adjustments (Note) (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
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>

Note: The activities of the property and infrastructure investment segment are carried on through an associate of the Group 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

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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	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Revenue		
Gains/(losses) on disposal of listed equity investments at fair value through profit or loss, net	517	(4,367)
Dividend income from listed equity investments at fair value through profit or loss	214	222
Interest income from convertible notes and loans receivable	946	846
	<u>1,677</u>	<u>(3,299)</u>
Other income and gains		
Gross rental income	597	512
Interest income on bank deposits	8	25
Fair value gains, net:		
Listed equity investments at fair value through profit or loss	8,502	20,936
Embedded option derivatives	38	—
Dividend income from an available-for-sale investment	11,718	10,170
Fair value gains on investment properties	2,000	3,800
Gain on disposal of items of property and equipment	135	—
	<u>22,998</u>	<u>35,443</u>

5. OTHER EXPENSES

	Six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Fair value losses on embedded option derivatives, net	—	3,510

6. FINANCE COSTS

	Six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Interest on bank loans	2,203	1,473

Notes to Condensed Consolidated Financial Statements

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7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2013 (Unaudited) <i>HK\$'000</i>	2012 (Unaudited) <i>HK\$'000</i>
Depreciation	<u>1,660</u>	<u>1,457</u>

8. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2013 as the Group has available tax losses brought forward from prior years to offset the assessable profits arising in Hong Kong during the period.

No provision for Hong Kong profits tax had been made for the six months ended 30 June 2012 as the Group did not generate any assessable profits arising in Hong Kong during that period.

	Six months ended 30 June	
	2013 (Unaudited) <i>HK\$'000</i>	2012 (Unaudited) <i>HK\$'000</i>
Deferred tax charge for the period – Hong Kong	<u>14</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 an associate amounting to HK\$4,308,000 (2012: HK\$3,573,000) is included in "Share of results of an associate" 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 2013 (2012: Nil).

No dividend was paid during the six months ended 30 June 2013 (2012: Nil).

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

The calculation of basic earnings per share amounts 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 amounts presented for the periods ended 30 June 2013 and 30 June 2012 as the Group has no potentially dilutive ordinary shares in issue during these periods.

Notes to Condensed Consolidated Financial Statements

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10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(continued)*

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

	Six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	<u>61,610</u>	<u>77,016</u>
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculations	<u>9,305,276,756</u>	<u>9,305,276,756</u>

11. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2013, the Group incurred HK\$1,233,000 (2012: HK\$1,217,000) on the acquisition of items of property and equipment.

12. INVESTMENT IN AN ASSOCIATE

	Group	
	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Share of net assets	<u>1,776,388</u>	<u>1,714,264</u>
Market value of listed shares	<u>657,930</u>	<u>600,600</u>

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group
Y. T. Realty Group Limited	Ordinary shares of HK\$0.1 each	Bermuda/ Hong Kong	34.14

Y. T. Realty Group Limited ("Y. T. Realty") is an investment holding company, incorporated in Bermuda and listed in Hong Kong, with its subsidiaries engaged in property investment, property trading, the provision of property management and related services. This associate has been accounted for using the equity method in these unaudited interim condensed consolidated financial statements.

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12. INVESTMENT IN AN ASSOCIATE *(continued)*

Extracts of the consolidated results and consolidated financial position of the associate, Y. T. Realty, are as follows:

Consolidated Results

	Six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Revenue	99,823	87,705
Other income or expenses, net	750	1,037
Total expenses	(16,993)	(18,255)
Changes in fair value of investment properties	77,134	111,530
Share of results of an associate	80,110	81,146
Income tax expense	(12,618)	(10,467)
Profit attributable to shareholders	<u>228,206</u>	<u>252,696</u>

Consolidated Financial Position

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
	Non-current assets	
Investment properties	3,611,500	3,532,800
Investment in an associate	1,694,558	1,660,643
Other non-current assets	2,935	3,101
	<u>5,308,993</u>	<u>5,196,544</u>
Current assets	198,407	151,602
Current liabilities	(119,729)	(123,029)
Non-current liabilities	(184,446)	(203,865)
Net assets	<u>5,203,225</u>	<u>5,021,252</u>

Notes to Condensed Consolidated Financial Statements

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13. INTEREST-BEARING BANK LOANS

Group

	30 June 2013 (unaudited)			31 December 2012 (audited)		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current						
Bank loans – secured	2.09 - 2.48	July 2013 - June 2014	161,000	2.09 - 2.44	January 2013	170,000
Non-current						
Bank loan – secured	2.14	July 2014 - June 2018	54,000	—	—	—
			<u>215,000</u>			<u>170,000</u>
Analysed into:						
Bank loans repayable:						
Within one year or on demand			161,000			170,000
In the second year			10,000			—
In the third to fifth years, inclusive			44,000			—
			<u>215,000</u>			<u>170,000</u>

All the above bank loans are denominated in Hong Kong dollars.

The above bank loans are secured by the Group's time deposits, investment properties, and certain leasehold land and buildings (note 16).

14. 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 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Within one year	939	1,142
In the second to fifth years, inclusive	65	459
	<u>1,004</u>	<u>1,601</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 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Within one year	1,675	894
In the second to fifth years, inclusive	3,446	—
	<u>5,121</u>	<u>894</u>

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15. COMMITMENTS

In addition to the operating lease commitments detailed in note 14(b) above, the Group had the following commitments in respect of the purchase of property and equipment at the end of the reporting period:

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Contracted, but not provided for	—	1,070

16. BANKING FACILITIES

At the end of the reporting period, the Group's banking facilities were secured by:

- a pledge of the Group's time deposits of HK\$9,445,000 (31 December 2012: HK\$9,426,000);
- a pledge of the Group's investment properties and certain land and buildings with carrying values of HK\$37,000,000 and HK\$40,066,000, respectively (31 December 2012: HK\$35,000,000 and HK\$40,545,000, respectively); and
- corporate guarantees issued by the Company.

17. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Short term employee benefits	7,645	7,310
Post-employment benefits	38	31
Total compensation paid to key management personnel	7,683	7,341

18. FAIR VALUE MEASUREMENT

The fair values of cash and bank balances, pledged time deposits, deposits and other receivables, loans receivable, other payables and accruals, current portion of interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the non-current portion of interest-bearing bank loan has been calculated by discounting the expected future cash flows using a rate currently available for instrument on similar terms, credit risk and remaining maturity. The fair value of the loan portion of the convertible notes receivable is estimated using an equivalent market interest rate for a similar convertible note. The fair value of the embedded option derivatives is determined using a binomial pricing model.

The fair values of listed equity investments are based on quoted market prices.

Notes to Condensed Consolidated Financial Statements

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18. FAIR VALUE MEASUREMENT *(continued)*

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)

Assets measured at fair value

At 30 June 2013

	Level 1 (Unaudited) <i>HK\$'000</i>	Level 2 (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Available-for-sale equity investments	587,399	—	587,399
Listed equity investments at fair value through profit or loss	182,545	—	182,545
Embedded option derivatives at fair value	—	51	51
	<u>769,944</u>	<u>51</u>	<u>769,995</u>

At 31 December 2012

	Level 1 (Audited) <i>HK\$'000</i>	Level 2 (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Available-for-sale equity investments	720,322	—	720,322
Listed equity investments at fair value through profit or loss	171,813	—	171,813
Embedded option derivatives at fair value	—	13	13
	<u>892,135</u>	<u>13</u>	<u>892,148</u>

During the six months ended 30 June 2013, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2012: Nil).

19. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved by the Board on 26 August 2013.