

YUGANG

YUGANG INTERNATIONAL LIMITED

Stock Code: 00613

2014
INTERIM REPORT

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive 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

Executive Committee

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

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

AUTHORISED REPRESENTATIVES

Mr. Cheung Chung Kiu
Mr. Yuen Wing Shing

COMPANY SECRETARY

Mr. Albert T. da Rosa, Jr.

INDEPENDENT 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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Bermuda

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
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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 2014.

RESULTS

The Group recorded a profit attributable to equity holders of the Company of HK\$144.8 million for the six months ended 30 June 2014, representing an increase of HK\$83.2 million or 135.0% from the last corresponding period. It was mainly attributable to a substantial unrealized fair value gain of HK\$64.8 million on the revaluation of listed equity investments (2013: HK\$8.5 million) and a substantial increase of realized gain on disposal of listed equity investments from HK\$0.5 million in the last corresponding period to HK\$14.7 million for the period.

Basic earnings per share for the six months ended 30 June 2014 was HK1.56 cents, whereas basic earnings per share of HK0.66 cents were recorded in the last corresponding period.

BUSINESS REVIEW

During the first half of 2014, the recovery of global economy remained bumpy with uncertainties. The World Bank and International Monetary Fund had marked down global economic growth forecast amid an uncertain economic outlook of the U.S. and Europe. In addition, an escalation of tensions in Ukraine might pose acute risks to the global economy.

The growth of China’s economy decelerated with a fall of GDP to 7.4% in first quarter of the year. Most investors became conservative and watched for any stimulus measures by the central government of China. Local stock market therefore went into a consolidation stage. During the second quarter of the year, the central government implemented some mini-stimulus measures and targeted cut of Bank’s Required Deposit Reserve Ratio to shore up the economic growth. Local stock market therefore rallied and a bullish market sentiment was fuelled up gradually. Benefited by the stock market rally, the Group recorded a substantial improvement in the performance of securities investment which supported an encouraging result of the Group for the period.

Property Investment and Infrastructure Business

Property Investment Business

The Group’s property investment business is principally carried out through an associate, Y. T. Realty Group Limited (“Y. T. Realty”), the shares of which are traded on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Y. T. Realty currently holds two commercial buildings, namely Century Square and Prestige Tower (collectively the “Investment Properties”), both of which are situated in the core of Central District and Tsimshatsui respectively.

During the period under review, the economic growth of Hong Kong was moderate. In particular, the retail consumption was affected by the slowdown of tourist consumption especially in luxury retail sector. Owing to a beauty facade with an up-market fashion hub of the Investment Properties, Y. T. Realty could still attract and retain quality tenants. With a quality tenant mix and well-established strong clientele, the actual impact of decrease in tourist consumption to Y. T. Realty was only modest as the overall occupancy rate slipped slightly below last year’s 98%, and a moderate increase in rent and overall rental income was recorded.

The gross rental income of Y. T. Realty for the six months ended 30 June 2014 was HK\$99.8 million, representing an increase of 4.6% from the last corresponding period. A fair value gain of HK\$78.4 million on revaluation of Investment Properties was also recorded for the period, which represented a slight increase of about HK\$1.3 million from the last corresponding period. The net profit after tax of Y. T. Realty for the period was HK\$251.6 million, representing an increase of HK\$23.4 million from the last corresponding period. The Group’s share of profit of Y. T. Realty for the period was HK\$85.9 million.

Management Discussion and Analysis

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% and 39.5% equity interests in Western Harbour Tunnel Company Limited and Tate’s Cairn Tunnel Company Limited respectively, both of which generated a steady stream of toll income with a stable growth.

As the local labour market and income remained stable during the period, domestic private consumption remained steady which supported the growth of tunnel operations during the period. Benefited from an overall increase of daily throughput, the overall toll income of tunnel operations for the period had recorded a satisfactory growth over the last corresponding period. The net profit after tax and non-controlling interests of Cross-Harbour for the period was HK\$239.7 million, representing an increase of HK\$47.4 million or 24.7% from the last corresponding period.

Treasury Management

During the period under review, the local stock market was relatively less volatile with a consolidation between 21,100 points and 23,400 points of Hang Seng Index. The market sentiment was mainly hindered by the factor of economic slowdown in China. However, following the launch of mini-stimulus fiscal measures and targeted cut of Bank’s Required Deposit Reserve Ratio in China in second quarter, positive sentiment across the local stock market was subsequently lifted. Therefore, the Group recorded a satisfactory performance in treasury management including a substantial unrealized fair value gain of HK\$64.8 million on listed equity investments and a realized gain of HK\$14.7 million on disposal of listed equity investments for the period.

OUTLOOK

Looking forward, the Group is cautiously optimistic about the current year’s performance as the market sentiment continued to improve since July. Hang Seng Index soared to about 25,000 points due to consecutive influx of hot money in July which encouraged bullish sentiment in the stock market. Subsequently, the release of economic indicators of China such as Purchasing Managers’ Index has revealed the gradual and stable economic recovery of China. Further, the positive market expectation of Shanghai-Hong Kong Stock Connect and Reform of State-owned Enterprises in China have also strengthened investor’s confidence.

As mentioned in the last published annual report, the performance of the Group is positively correlated with the performance of the stock market. The Group is cautiously optimistic about the operating performance of 2014 if the bullish sentiment of local stock market persists throughout the second half of the year.

FINANCIAL REVIEW

Other Comprehensive Income

The Group recorded other comprehensive loss of HK\$136.2 million for the six months ended 30 June 2014 (2013: HK\$136.4 million). It was mainly attributable to fair value loss of HK\$135.0 million on available-for-sale investments of the Group for the period (2013: HK\$130.2 million).

Net Asset Value

The unaudited consolidated net asset value of the Group as at 30 June 2014 was HK\$2,482.5 million, representing a decrease of HK\$10.0 million from the end of last financial year. It was mainly attributable to a significant fair value loss of available-for-sale investments for the period as reported in the Consolidated Statement of Comprehensive Income. The unaudited consolidated net asset value per share as at 30 June 2014 was HK\$0.267.

Management Discussion and Analysis

Capital Structure

The Group's capital expenditure and investments were mainly funded from cash on hand, internally-generated funds, bank and other borrowings.

The Group persistently 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 2014, the Group's cash, bank balances and time deposits (excluding pledged time deposits) was HK\$40.7 million. The cash and cash equivalents together with the listed equity investments in aggregate were HK\$273.4 million. The current ratio of the Group increased to 1.3.

The bank and other borrowings of the Group as at 30 June 2014 were HK\$249.0 million which were interest-bearing and denominated in Hong Kong dollars.

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

	HK\$
Due within one year or on demand	205,000,000
Due more than one year but not exceeding two years	14,000,000
Due more than two years but not exceeding five years	<u>30,000,000</u>
Total	<u>249,000,000</u>

As at 30 June 2014, the Group had unutilized short-term banking facilities of approximately HK\$25.0 million.

Gearing Ratio

As at 30 June 2014, the gearing ratio of the Group, as measured by dividing the net debt to shareholders' equity, was 8.7%. Net debt includes interest-bearing bank and other 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 2014.

Exposure to Fluctuation 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 listed equity investments denominated in foreign currencies which represented only 3.7% of the Group's net asset value. Hence the Group's exposure to fluctuation in foreign exchange rates is minimal and the Group did not have any related hedging instruments.

Charge on Assets

As at 30 June 2014, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$66.7 million and time deposits of approximately HK\$9.5 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 covered in the Business Review and Outlook 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 held significant equity interests for long term in Y. T. Realty and C C Land Holdings Limited ("C C Land", the shares of which are listed on the main board of the Stock Exchange).

The Group held a substantial equity interest in Y. T. Realty as an associate with a carrying value of HK\$1,978.5 million as at 30 June 2014. Detailed discussion of performance of Y. T. Realty contained in the section of Business Review.

The Group held a significant equity interest in C C Land as an available-for-sale investment with a fair value of HK\$372.4 million. A fair value loss of HK\$135.4 million was reported for the period as other comprehensive loss in the Consolidated Statement of Comprehensive Income. The Group received a dividend income of HK\$11.7 million from C C Land for the period (2013: HK\$11.7 million).

Save as disclosed in this interim report, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the period under review. There was 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 2013

Save as discussed above, 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 Practices

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 and responsibilities undertaken, employment conditions elsewhere in the Group and salaries paid by comparable companies will all be considered.

There are 32 staffs working for the Group as at 30 June 2014. The Group also provides other staff benefits including MPF, medical insurance and discretionary training subsidy. The Company also operates a discretionary share option scheme to motivate the performance of employees.

Management Discussion and Analysis

ADDITIONAL INFORMATION

Compliance with Corporate Governance Code

The Company is committed to achieving and maintaining high standards of corporate governance. Throughout the six months ended 30 June 2014, the Company complied with all code provisions of Corporate Governance Code as set out in Appendix 14 to the Listing Rules, 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 ("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 to the Listing Rules.

Following specific enquiry by the Company, all Directors confirmed that they had, throughout the six months ended 30 June 2014, complied with the required standards set out in Model Code and Securities Dealings Code.

Changes in Information of Directors

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.

Review of Accounts

The audit committee of the Company has reviewed the 2014 Interim Report and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2014. In addition, it has also reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters.

Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

Purchase, Sale or Redemption of Listed Securities of the Company

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 2014.

Board of Directors

As at the date of this report, the Board comprises nine Directors, namely Mr. Cheung Chung Kiu (Chairman), Mr. Yuen Wing Shing (Managing Director), Mr. Zhang Qing Xin, Mr. Lam Hiu Lo and Mr. Liang Kang as executive Directors; Mr. Lee Ka Sze, Carmelo as non-executive Director; and Mr. Luk Yu King, James, Mr. Leung Yu Ming, Steven and Mr. Ng Kwok Fu as independent non-executive Directors.

Disclosure of Interests

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2014, 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")) (the "Associated Corporations") 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 Corporations:

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 2014, none of Directors or chief executive of the Company and their respective associates had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations as recorded in the register 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.

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 2014, 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 2014, the Company had 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

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2014

		Six months ended 30 June	
	Notes	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
REVENUE	4	15,858	2,274
Other income and gains	4	79,932	22,401
Administrative expenses		(33,364)	(36,033)
Impairment of an available-for-sale investment		—	(2,725)
Finance costs	5	(3,530)	(2,203)
Share of profit of an associate		85,897	77,910
PROFIT BEFORE TAX	6	144,793	61,624
Income tax	7	(8)	(14)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>144,785</u>	<u>61,610</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic and diluted		<u>HK1.56 cents</u>	<u>HK0.66 cents</u>

Details of dividend are disclosed in note 8 to the condensed consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	<u>144,785</u>	<u>61,610</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Items that will be reclassified subsequently to profit or loss when specific conditions are met:</i>		
Available-for-sale investments:		
Changes in fair value	(134,975)	(132,923)
Reclassification adjustment for an impairment loss included in the consolidated statement of profit or loss	<u>—</u>	<u>2,725</u>
	(134,975)	(130,198)
Share of other comprehensive loss of an associate	<u>(1,233)</u>	<u>(6,231)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	<u>(136,208)</u>	<u>(136,429)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	<u>8,577</u>	<u>(74,819)</u>

Consolidated Statement of Financial Position

30 June 2014

	Notes	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property and equipment	10	50,185	51,694
Investment properties		41,000	37,600
Investment in an associate	11	1,978,468	1,903,359
Loans receivable		1,000	2,000
Available-for-sale investments		383,408	518,383
Other assets		360	360
Total non-current assets		2,454,421	2,513,396
CURRENT ASSETS			
Listed equity investments at fair value through profit or loss		232,700	160,082
Convertible notes receivable - loan portion		—	9,868
Embedded option derivatives		—	1,108
Loans receivable		1,000	1,000
Prepayments, deposits and other receivables		2,042	2,703
Pledged time deposits		9,465	9,457
Time deposits		12,500	22,000
Cash and bank balances		28,249	5,621
Total current assets		285,956	211,839
CURRENT LIABILITIES			
Other payables and accruals		8,668	20,500
Bank and other borrowings	12	205,000	163,000
Total current liabilities		213,668	183,500
NET CURRENT ASSETS		72,288	28,339
TOTAL ASSETS LESS CURRENT LIABILITIES		2,526,709	2,541,735
NON-CURRENT LIABILITIES			
Deferred tax liabilities		248	240
Bank borrowing	12	44,000	49,000
Total non-current liabilities		44,248	49,240
Net assets		2,482,461	2,492,495
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		93,053	93,053
Reserves		2,389,408	2,399,442
Total equity		2,482,461	2,492,495

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	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 2014	93,053	907,280*	760,799*	132,787*	1,745*	596,831*	2,492,495
Profit for the period	—	—	—	—	—	144,785	144,785
Other comprehensive loss for the period:							
Changes in fair value of available-for-sale investments	—	—	—	(134,975)	—	—	(134,975)
Share of other comprehensive loss of an associate	—	—	—	—	(1,233)	—	(1,233)
Total comprehensive income/(loss) for the period	—	—	—	(134,975)	(1,233)	144,785	8,577
2013 Final dividend paid (note 8)	—	—	—	—	—	(18,611)	(18,611)
At 30 June 2014	93,053	907,280*	760,799*	(2,188)*	512*	723,005*	2,482,461
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 income/(loss) for the period:							
Available-for-sale investments:							
Changes in fair value	—	—	—	(132,923)	—	—	(132,923)
Reclassification adjustment for an impairment loss included in the consolidated statement of profit or loss	—	—	—	2,725	—	—	2,725
Share of other comprehensive loss of an associate	—	—	—	—	(6,231)	—	(6,231)
Total comprehensive income/(loss) for the period	—	—	—	(130,198)	(6,231)	61,610	(74,819)
At 30 June 2013	93,053	907,280	760,799	201,803	(3,509)	468,708	2,428,134

* These reserve accounts comprise the consolidated reserves of HK\$2,389,408,000 (31 December 2013: HK\$2,399,442,000) in the consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(24,205)	(49,659)
INVESTING ACTIVITIES		
Dividends received from an associate	9,555	9,555
Dividends received from an available-for-sale investment	11,718	—
Other cash flows arising from investing activities	(6)	(1,104)
NET CASH FLOW FROM INVESTING ACTIVITIES	21,267	8,451
FINANCING ACTIVITIES		
New bank and other borrowings	40,000	45,000
Repayment of bank borrowing	(3,000)	—
Dividends paid	(18,611)	—
Interest paid	(2,323)	(2,144)
NET CASH FLOWS FROM FINANCING ACTIVITIES	16,066	42,856
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,128	1,648
Cash and cash equivalents at beginning of period	27,621	5,454
CASH AND CASH EQUIVALENTS AT END OF PERIOD	40,749	7,102
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	28,249	7,102
Non-pledged time deposits with original maturity of less than three months when acquired	12,500	—
	40,749	7,102

Notes to Condensed Consolidated Financial Statements

30 June 2014

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 2014 were authorised for issue in accordance with a resolution of the board of directors on 26 August 2014.

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 2013.

The accounting policies and basis of preparation 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 2013, 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 amendments to HKFRSs and one new interpretation that are first effective for the current accounting period of the Group:

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments:</i> <i>Presentation – Offsetting Financial Assets and Financial Liabilities</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets</i> – <i>Recoverable Amount Disclosures for Non-Financial Assets</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> – <i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

The adoption of these amendments and interpretation has had no significant financial effect on the 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.

Notes to Condensed Consolidated Financial Statements

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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 management 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 consists of investment through Y. T. Realty Group Limited ("Y. T. Realty"), an associate of the Group, in properties for rental income and/or for capital appreciation potential; and in an associate which holds two tunnels in Hong Kong generating toll revenue.
- (c) The "Others" segment which consists of the trading of scrap metals and other materials, property investment for rental income and/or for capital appreciation potential, 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.

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

For the six months ended 30 June 2014

	Treasury management (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	15,222	104,382	636	120,240	(104,382)	15,858
Other income and gains	76,525	79,101	3,407	159,033	(79,101)	79,932
Total revenue and gains	<u>91,747</u>	<u>183,483</u>	<u>4,043</u>	<u>279,273</u>	<u>(183,483)</u>	<u>95,790</u>
Segment profit for the period	<u>63,298</u>	<u>251,601</u>	<u>1,503</u>	<u>316,402</u>	<u>(165,704)</u>	<u>150,698</u>
Corporate and unallocated expenses, net						(5,913)
Profit for the period						<u>144,785</u>

Notes to Condensed Consolidated Financial Statements

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3. OPERATING SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2013

	Treasury management (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	597	102,097	(99,823)	2,274
Other income and gains	20,266	77,884	2,135	100,285	(77,884)	22,401
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>

Note: The activities of the property and infrastructure investment segment are carried out 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.

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, interest income from convertible notes and loans receivable, and gross rental income received and receivable from investment properties during the period.

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

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Revenue		
Gains on disposal of listed equity investments at fair value through profit or loss, net	14,651	517
Dividend income from listed equity investments at fair value through profit or loss	288	214
Interest income from convertible notes and loans receivable	283	946
Gross rental income	636	597
	<u>15,858</u>	<u>2,274</u>

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4. REVENUE, OTHER INCOME AND GAINS *(continued)***Other income and gains**

Interest income on bank deposits	
Fair value gains, net:	
Listed equity investments at fair value through profit or loss	
Embedded option derivatives	
Dividend income from an available-for-sale investment	
Fair value gains on investment properties	
Gain on disposal of items of property and equipment	
Others	

Six months ended 30 June

2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
14	8
64,793	8,502
—	38
11,718	11,718
3,400	2,000
—	135
7	—
<u>79,932</u>	<u>22,401</u>

5. FINANCE COSTS

Interest on bank and other borrowings

Six months ended 30 June

2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
3,530	2,203

6. PROFIT BEFORE TAX

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

Depreciation

Six months ended 30 June

2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
1,517	1,660

7. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2014 as the Group has available tax losses brought forward from prior years to offset the assessable profits arising in Hong Kong during the period (2013: Nil).

Deferred tax charge for the period – Hong Kong
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Six months ended 30 June

2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
8	14

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\$4,396,000 (2013: HK\$4,308,000) is included in "Share of profit of an associate" on the face of the consolidated statement of profit or loss.

Notes to Condensed Consolidated Financial Statements

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8. DIVIDENDS

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

A final dividend of HK\$18,611,000 in respect of the year ended 31 December 2013 was paid during the six months ended 30 June 2014. No dividend was paid during the six months ended 30 June 2013.

9. 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 2014 and 30 June 2013 as the Group had no potentially dilutive ordinary shares in issue during these periods.

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

	Six months ended 30 June	
	2014	2013
	(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 calculations	144,785	61,610
	<u>144,785</u>	<u>61,610</u>
	Number of shares	
	Six months ended 30 June	
	2014	2013
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculations	9,305,276,756	9,305,276,756
	<u>9,305,276,756</u>	<u>9,305,276,756</u>

10. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2014, the Group incurred HK\$8,000 (2013: HK\$1,233,000) on the acquisition of items of property and equipment.

11. INVESTMENT IN AN ASSOCIATE

	Group	
	30 June	31 December
	2014	2013
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Share of net assets	1,978,468	1,903,359
	<u>1,978,468</u>	<u>1,903,359</u>
Market value of listed shares	677,040	668,850
	<u>677,040</u>	<u>668,850</u>

Notes to Condensed Consolidated Financial Statements

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11. INVESTMENT IN AN ASSOCIATE (continued)

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation and business	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.

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	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Revenue	104,382	99,823
Other income	721	750
Total expenses	(18,880)	(16,993)
Changes in fair value of investment properties	78,380	77,134
Share of profit of an associate	99,875	80,110
Income tax expense	(12,877)	(12,618)
Profit attributable to shareholders	<u>251,601</u>	<u>228,206</u>

Consolidated Financial Position

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
	Non-current assets	
Investment properties	3,883,900	3,807,800
Investment in an associate	1,862,989	1,794,672
Other non-current assets	2,576	2,852
Current assets	5,749,465	5,605,324
Current liabilities	(102,474)	259,233
Non-current liabilities	(168,543)	(176,574)
Net assets	<u>5,795,146</u>	<u>5,575,140</u>

Notes to Condensed Consolidated Financial Statements

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12. BANK AND OTHER BORROWINGS

Group

	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current						
Bank borrowings – secured	2.14 – 2.31	July 2014 - June 2015	165,000	2.14 - 2.46	January 2014 - December 2014	163,000
Other borrowing – unsecured	7.00	January 2015	40,000	—	—	—
			<u>205,000</u>			<u>163,000</u>
Non-current						
Bank borrowing – secured	2.16	September 2015 - June 2018	44,000	2.14	March 2015 - June 2018	49,000
			<u>249,000</u>			<u>212,000</u>
Analysed into:						
Bank borrowings repayable:						
Within one year or on demand			165,000			163,000
In the second year			14,000			12,000
In the third to fifth years, inclusive			30,000			37,000
			<u>209,000</u>			<u>212,000</u>
Other borrowing repayable:						
Within one year or on demand			40,000			—
			<u>249,000</u>			<u>212,000</u>

Notes to Condensed Consolidated Financial Statements

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13. 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 falling due as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within one year	551	944
In the second to fifth years, inclusive	182	425
	733	1,369

(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 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within one year	1,677	1,695
In the second to fifth years, inclusive	1,792	2,619
	3,469	4,314

14. COMMITMENTS

At the end of the reporting period, the Group did not have any significant commitments (31 December 2013: Nil).

15. BANKING FACILITIES

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

- (a) a pledge of the Group's time deposits of HK\$9,465,000 (31 December 2013: HK\$9,457,000);
- (b) pledges of the Group's investment properties and certain land and buildings with carrying values of HK\$41,000,000 and HK\$25,715,000, respectively (31 December 2013: HK\$37,600,000 and HK\$39,647,000, respectively); and
- (c) corporate guarantees issued by the Company.

Notes to Condensed Consolidated Financial Statements

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16. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	7,900	7,645
Post-employment benefits	39	38
Total compensation paid to key management personnel	7,939	7,683

17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, time deposits, pledged time deposits, financial assets included in prepayments, deposits and other receivables, the current portion of loans receivable, financial liabilities included in other payables and accruals, and the current portion of bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair value of the non-current portion of loans receivable and bank borrowing have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturity. The Group's own non-performance risk for bank borrowing as at 30 June 2014 and 31 December 2013 and other borrowing as at 30 June 2014 were assessed to be insignificant. The fair values of these financial instruments are measured using significant observable inputs (level 2).

The fair value of the embedded option derivatives at 31 December 2013 was determined using a trinomial tree pricing model and the fair value of listed equity investments were based on quoted market prices.

Notes to Condensed Consolidated Financial Statements

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17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

*(continued)***Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

Group

As at 30 June 2014 (Unaudited)

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Available-for-sale equity investments	383,408	—	—	383,408
Listed equity investments at fair value through profit or loss	232,700	—	—	232,700
	616,108	—	—	616,108

Group

As at 31 December 2013 (Audited)

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Available-for-sale equity investments	518,383	—	—	518,383
Listed equity investments at fair value through profit or loss	160,082	—	—	160,082
Embedded option derivatives at fair value	—	1,108	—	1,108
	678,465	1,108	—	679,573

The Group did not have any financial liabilities measured at fair value as at 30 June 2014 and 31 December 2013.

During the six months ended 30 June 2014, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).

18. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved by the Board on 26 August 2014.