



Nanyang Holdings Limited

(incorporated in Bermuda with limited liability)

Stock Code: 212



INTERIM REPORT 2017

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This document in both English and Chinese is now available in printed form and on the website of the Company at <http://www.nanyangholdingslimited.com>.

GROUP FINANCIAL HIGHLIGHTS

	Unaudited		Variance
	Six months ended 30 June		
	2017	2016	
	HK\$'000	HK\$'000	
Revenue and other income/(loss)	<u>128,450</u>	<u>91,976</u>	40%
Profit attributable to equity holders of the Company	195,049	63,600	207%
Profit attributable to equity holders of the Company after deducting:			
– changes in fair value of investment properties and related tax effects	<u>(83,904)</u>	<u>(5,020)</u>	1,571%
	<u>111,145</u>	<u>58,580</u>	90%
Earnings per share	HK\$5.55	HK\$1.80	208%
Earnings per share			
– after deducting the changes in fair value of investment properties and related tax effects	HK\$3.16	HK\$1.66	90%

The Board of Directors of Nanyang Holdings Limited (“the Company”) announces that the unaudited Group results for the six months ended 30 June 2017 showed a profit after taxation of HK\$195 million (2016 profit of HK\$63.6 million). The current period’s profit comprises mainly of the dividend receivable from The Shanghai Commercial & Savings Bank, Ltd., in respect of its 2016 earnings, of approximately HK\$50 million (after deducting 20% withholding tax), gains from investment portfolios of approximately HK\$23.3 million and the revaluation gain of investment properties at fair value (including those owned by joint ventures) which resulted in a net gain of HK\$83.9 million (2016: HK\$5 million). Excluding the net effect of revaluing the investment properties at fair value, the half year would have shown a profit after tax of HK\$111.1 million (2016: profit of HK\$58.6 million). Earnings per share were HK\$5.55 (2016: HK\$1.80). However, if the net effect of revaluing the investment properties at fair value had been excluded, earnings per share would have been HK\$3.16 (2016: HK\$1.66).

Business Review and Prospects

Real Estate

Hong Kong

Improvement in local business sentiment enhanced leasing activities. We were able to achieve a high occupancy rate at our building. Of the 290,000 sq.ft. of industrial/office space the Group holds at Nanyang Plaza, in Kwun Tong, presently it is 98.8% leased. As the building is over 20 years old, certain major capital works were required to rectify the deteriorating condition of various building systems. The total cost is approximately HK\$18 million. Upon completion, this should enhance the value of the building.

Shanghai

Shanghai Sung Nan Textile Co. Ltd. (owned 65% by the Group), continued to perform satisfactorily. Of the total leasable area of 28,142 sq.m., presently it is fully leased to third parties. Business of the anchor tenant (of 21,202 sq.m. or 75.3%), which is in the wedding banquet business, is steady.

The Group’s investment, a 16.7% interest in HSL China Metropolitan Fund (“Fund”) which holds a service apartment in Shanghai, has been classified as an “Associate”. The sale of the apartment units by strata-title has progressed well. In late June, the Fund manager has signed a Memorandum of Understanding to dispose of the retail podium and the rest of the unsold units and car park spaces. It is expected that the Sales and Purchase Agreement would be signed some time end of August 2017.

Shenzhen

Performance of the Group’s 45% joint venture in Shenzhen, Southern Textile Company Limited, continues to be good. Since beginning of 2017, Southern’s management installed new electrical wiring and repaired the old sprinkler system of the factory building. At present, they are replacing the cargo lift, which is over 30 years old. Of the total leasable floor area of approximately 18,400 sq.m., presently it is 100% leased.

Financial Investments

The major equity markets performed well, in the first half of 2017. Investor confidence improved and emerging markets also showed favourable returns. Furthermore, economic data from the PRC showed resilience after a period of slower growth. During this period, we increased equities and reduced cash and commodities. For the six months ended 30 June 2017, the portfolios increased by 7.93%. The value of the portfolios, at the end of the period, stood at US\$41.7 million or approximately HK\$325.7 million.

Business Review and Prospects *(Continued)*

Financial Investments *(Continued)*

Since the beginning of July, equity markets continued to rise. As at 21 August 2017, the latest practicable date, the portfolios increased by 9.04% year-to-date and their value stood at approximately US\$41.8 million or approximately HK\$326.9 million. Equities comprised 66.7% (of which 34.1% was in U.S. equities), bonds 21.5%, commodities 0.2% and cash 11.6%.

Going forward, volatility in the markets may increase due to geopolitical events and any possible political mis-steps. However, economic data reported so far continues to indicate modest growth. Business investments in the U.S. may rise if the proposed tax reform could be implemented and prospects in the Eurozone are improving. Together with the recent measures taken by the PRC financial regulators to address risks, these developments are positive for the markets. Barring unforeseen circumstances, we look forward to 2017 with guarded optimism.

The Group's investment in The Shanghai Commercial & Savings Bank, Ltd. ("SCSB") in Taiwan, which is stated at fair value, has been classified under non-current assets as an available-for-sale financial asset, as there is no intention to dispose of it within 12 months of this report date. The holding represents approximately 4% of the total issued share capital of SCSB. At the beginning of August, the Group received a net cash dividend of approximately HK\$50 million (after deducting 20% withholding tax).

SCSB has 69 branches in Taiwan, one in Hong Kong, one in Vietnam and one in Singapore. They have three representative offices, one in Jakarta, Indonesia, one in Bangkok, Thailand and one in Phnom Peng, Cambodia. SCSB also holds a 57.6% interest in Shanghai Commercial Bank Limited ("SCB") in Hong Kong. SCB has 43 branches in Hong Kong, three in China and four branches overseas. The unaudited net income of SCSB for the three months ended 31 March 2017 was approximately NT\$2,717.4 million (2016 same period: net income of approximately NT\$2,620.1 million). Total shareholders equity at 31 March 2017 was approximately NT\$120,987.6 million (31/3/2016: approximately NT\$117,223.0 million). (These figures were extracted from SCSB's website at <http://www.scsb.com.tw>.)

Financial Position

The Group's investment properties with an aggregate value of HK\$2,024 million (31/12/2016: HK\$1,942 million) have been mortgaged to a bank to secure general banking facilities. As at 30 June 2017, HK\$36 million (31/12/2016: Nil) was utilized. The Group also borrowed Euro 1 million (approximately HK\$8.9 million as at 30 June 2017) collateralized by a portion of the investment portfolio, to hedge its Euro exposure.

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2017, the Company repurchased 110,000 of its shares on The Stock Exchange of Hong Kong Limited, all of which have been cancelled. The Directors believe that share buybacks will be beneficial to the shareholders as the shares are traded at a discount to the net asset value per share. Details of the shares repurchased are as follows:

<i>Month of repurchase</i>	<i>Number of shares purchased</i>	<i>Price per share</i>		<i>Aggregate price HK\$</i>
		<i>Highest HK\$</i>	<i>Lowest HK\$</i>	
2017				
February	110,000	43.40	43.10	4,755,575

Except as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company during the period.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2017, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or any 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 under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

<i>Name</i>	<i>Shares of HK\$0.10 each of the Company</i>				<i>% of issued share capital</i>
	<i>Personal interests</i>	<i>Family interests</i>	<i>Corporate interests</i>	<i>Total</i>	
Hung Ching Yung	10,701,944	30,000	5,500,000 (Note)	16,231,944	46.22%
Lincoln C. K. Yung	2,240,000	10,000	–	2,250,000	6.41%
Rudolf Bischof	150,000	–	–	150,000	0.43%
John Con-sing Yung	33,000	37,000	–	70,000	0.20%

Note: As stated below, Mr. Hung Ching Yung is taken to be interested in the same 5,500,000 shares owned by a substantial shareholder, Tankard Shipping Co. Inc., pursuant to the SFO.

During the period, the Company has not granted to any Directors, chief executive or their respective spouses or children under 18 years of age any rights to subscribe for shares of the Company and its associated corporations.

At no time during the period was the Company, its subsidiaries or its associated corporations a party to any arrangements to enable the Directors or chief executive or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any of its associated corporations.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares

As at 30 June 2017, the Register of Substantial Shareholders' Interests and Short Positions maintained under Section 336 of the SFO shows that the following party, other than the Directors as disclosed above, was interested in 5 per cent or more of the issued share capital of the Company:

	<i>Number of shares</i>	<i>% of issued share capital</i>
Tankard Shipping Co. Inc.	5,500,000 (Note)	15.66%

Note: Mr. Hung Ching Yung is taken to be interested in the same 5,500,000 shares owned by Tankard Shipping Co. Inc. pursuant to the SFO.

Employees

The Group employed 13 employees as at 30 June 2017. Remuneration is determined by reference to the qualifications and experience of the staff concerned. Salaries and discretionary bonuses are reviewed annually. The Group also provides other benefits including medical cover and provident fund.

Corporate Governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2017, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules.

Code for Dealing in Company's Securities by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, the Company's directors confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2017.

Audit Committee and review of results

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls, risk management and financial reporting matters including a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 with the management. The unaudited interim financial statements of the Group for the six months ended 30 June 2017 have been reviewed by the Group's external auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditors of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Note	Six months ended 30 June	
		2017 HK\$'000	2016 HK\$'000
Revenue	6	105,168	96,547
Other income/(loss)	6	23,282	(4,571)
Revenue and other income/(loss)	6	128,450	91,976
Direct costs		(7,658)	(7,739)
Gross profit		120,792	84,237
Administrative expenses		(19,823)	(17,896)
Other operating income/(expenses), net		1,720	(329)
Changes in fair value of investment properties		86,210	7,946
Operating profit	7	188,899	73,958
Finance income	8	1	17
Finance expense	8	(259)	(336)
Share of profits of joint ventures		4,427	4,401
Share of profits of an associate		17,137	1,033
Profit before income tax		210,205	79,073
Income tax expense	9	(15,156)	(15,473)
Profit attributable to equity holders of the Company		195,049	63,600
Earnings per share (basic and diluted)	10	HK\$5.55	HK\$1.80

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Profit for the period	195,049	63,600
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Fair value gains/(losses) on available-for-sale financial assets	246,931	(84,553)
Share of other comprehensive income of joint ventures and an associate accounted for under equity method	1,177	(3,641)
Currency translation differences	7,110	1,280
Other comprehensive income for the period, net of tax	255,218	(86,914)
Total comprehensive income for the period attributable to equity holders of the Company	450,267	(23,314)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2017

	Note	30 June 2017 HK\$'000	31 December 2016 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	482	549
Investment properties	13	2,177,290	2,091,080
Investments in joint ventures		108,750	101,081
Investment in an associate		66,844	51,772
Available-for-sale financial assets	14	1,314,551	1,056,750
		<u>3,667,917</u>	<u>3,301,232</u>
Current assets			
Trade and other receivables	15	73,391	11,273
Financial assets at fair value through profit or loss	16	287,262	251,172
Tax recoverable		23	–
Derivative financial asset		129	–
Cash and bank balances			
– Pledged bank deposits		22,598	–
– Cash and cash equivalents		40,539	58,896
		<u>423,942</u>	<u>321,341</u>
Total assets		<u>4,091,859</u>	<u>3,622,573</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	3,512	3,523
Other reserves		1,092,715	837,486
Retained profits		2,858,851	2,703,674
Total equity		<u>3,955,078</u>	<u>3,544,683</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	18	22,279	21,705
Current liabilities			
Trade and other payables	19	54,645	55,724
Current income tax liabilities		14,978	461
Short term bank loans – secured		44,879	–
		<u>114,502</u>	<u>56,185</u>
Total liabilities		<u>136,781</u>	<u>77,890</u>
Total equity and liabilities		<u>4,091,859</u>	<u>3,622,573</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

	Six months ended 30 June 2017			
	Attributable to equity holders of the Company			
	Share capital HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
Balance at 1 January 2017	3,523	837,486	2,703,674	3,544,683
Total comprehensive income for the period ended 30 June 2017	–	255,218	195,049	450,267
Transactions with owners, recognised directly in equity:				
Dividends relating to 2016 paid in June 2017 (Note 11)	–	–	(35,116)	(35,116)
Shares repurchased and cancelled	(11)	11	(4,756)	(4,756)
Balance at 30 June 2017	<u>3,512</u>	<u>1,092,715</u>	<u>2,858,851</u>	<u>3,955,078</u>

	Six months ended 30 June 2016			
	Attributable to equity holders of the Company			
	Share capital HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
Balance at 1 January 2016	3,526	974,873	2,605,730	3,584,129
Total comprehensive income for the period ended 30 June 2016	–	(86,914)	63,600	(23,314)
Transactions with owners, recognised directly in equity:				
Dividends relating to 2015 paid in June 2016 (Note 11)	–	–	(35,250)	(35,250)
Shares repurchased and cancelled	(1)	1	(441)	(441)
Balance at 30 June 2016	<u>3,525</u>	<u>887,960</u>	<u>2,633,639</u>	<u>3,525,124</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Cash flows from operating activities	3,126	14,621
Cash flows from investing activities		
Other cash outflows from investment activities, net	(3,887)	–
Net cash outflows from investing activities	(3,887)	–
Cash flows from financing activities		
Dividends paid	(35,116)	(35,250)
Drawdown of bank loans	44,879	8,843
Other cash flows from financing activities, net	(5,014)	(263)
(Increase)/decrease in pledged bank deposits	(22,598)	10,172
Net cash outflows from financing activities	(17,849)	(16,498)
Net decrease in cash and cash equivalents	(18,610)	(1,877)
Cash and cash equivalents at 1 January	58,896	44,696
Currency translation difference	253	61
Cash and cash equivalents at 30 June	40,539	42,880
Analysis of cash and cash equivalents		
Cash and bank balances	40,539	42,880

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

Nanyang Holdings Limited (“the Company”) is a limited liability company incorporated in Bermuda. The address of its office in Hong Kong is Room 1808 St George’s Building, 2 Ice House Street, Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (together “the Group”) are engaged in property investment and investment holding and trading.

This condensed consolidated interim financial information (“Interim Financial Information”) is presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated. This Interim Financial Information has been approved for issue by the Board of Directors on 25 August 2017.

2 Basis of preparation

This Interim Financial Information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This Interim Financial Information should be read in conjunction with the 2016 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3 Significant accounting policies

The significant accounting policies and methods of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2016 annual financial statements, except for the adoption of the amendments to HKFRS effective for the year ending 31 December 2017.

(a) *Amendments to standards effective in current accounting period and are relevant to the Group’s operations*

During the period ended 30 June 2017, the Group has adopted the following amendments to standards which are relevant to the Group’s operations and are mandatory for accounting periods beginning on 1 January 2017:

HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKAS 7 (Amendments)	Disclosure Initiative
HKFRS 12 (Amendment)	Disclosure of Interest in Other Entities

The adoption of these amendments to standards does not have any significant change to the accounting policies or any significant effect on the results and financial position of the Group.

3 Significant accounting policies (Continued)

(b) *New standards and amendments to standards that are not yet effective and have not been early adopted by the Group*

The following new standards and amendments to standards have been published which are mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods but have not been early adopted by the Group:

HKAS 28 (Amendments)	Investments in Associates and Joint Ventures ⁽¹⁾
HKAS 40 (Amendments)	Transfers of Investment Properties ⁽¹⁾
HKFRS 1 (Amendment)	First Time Adoption of HKFRS ⁽¹⁾
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions ⁽¹⁾
HKFRS 4 (Amendments)	Insurance Contracts ⁽¹⁾
HKFRS 9	Financial Instruments ⁽¹⁾
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾
HKFRS 15	Revenue from Contracts with Customers ⁽¹⁾
HKFRS 16	Leases ⁽²⁾
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration ⁽¹⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2018

⁽²⁾ Effective for annual periods beginning on or after 1 January 2019

⁽³⁾ Effective date is to be determined

HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, equity instruments currently classified as available-for-sale (AFS) financial assets for which a fair value through other comprehensive income (FVOCI) election is available and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include equity investments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under HKFRS 9.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The Group does not expect a significant impact under the new hedge accounting rules as the Group does not have any such hedging.

3 Significant accounting policies (Continued)

- (b) *New standards and amendments to standards that are not yet effective and have not been early adopted by the Group* (Continued)

HKFRS 9, 'Financial instruments' (Continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group does not expect the new guidance to have a significant impact on the Group's financial statements.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, 'Revenue from contracts with customers'

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

The Group does not expect any significant impact of HKFRS 15 as its major source of revenue is rental income which is excluded from the scope of the new standard.

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$5,919,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

3 Significant accounting policies *(Continued)*

(b) New standards and amendments to standards that are not yet effective and have not been early adopted by the Group (Continued)

HKFRS 16, 'Leases' (Continued)

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

4 Financial risk management

The Group's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. The types of financial risk to which the Group is exposed are market risk (including equity price risk, foreign currency risk and interest rate risk), credit and counterparty risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects it may have on the Group's financial performance.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in any risk management policies since the year end.

Fair value estimation

The table below analyses financial instruments carried at fair value, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

4 Financial risk management (Continued)

Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2017. See note 13 for disclosures of the investment properties that are measured at fair value.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through profit or loss	286,262	1,000	–	287,262
Available-for-sale financial assets	1,310,663	–	3,888	1,314,551
Derivative financial asset	129	–	–	129
Total assets	1,597,054	1,000	3,888	1,601,942

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through profit or loss	250,172	1,000	–	251,172
Available-for-sale financial assets	1,056,750	–	–	1,056,750
Total assets	1,306,922	1,000	–	1,307,922

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no transfers between any level during the period.

5 Estimate

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

6 Revenue and other income/(loss) and segment information

Revenue mainly comprises rental income, dividend income from available-for-sale financial assets and management fee income from investment properties. Other income/(loss) represents net realised and unrealised gains/(losses) on financial assets at fair value through profit or loss. Revenue and other income/(loss) recognised during the period comprises the following:

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Revenue		
Gross rental income from investment properties	35,100	31,885
Dividend income from available-for-sale financial assets	62,447	57,333
Management fee income from investment properties	5,390	5,180
Other	2,231	2,149
	<u>105,168</u>	<u>96,547</u>
Other income/(loss)		
Net realised and unrealised gains/(losses) on financial assets at fair value through profit or loss	<u>23,282</u>	<u>(4,571)</u>
Revenue and other income/(loss)	<u>128,450</u>	<u>91,976</u>

The Group is organised on a worldwide basis into two main business segments:

- Real estate – investment in and leasing of industrial/office premises
- Financial investments – holding and trading of investment securities

There are no sales or other transactions between the business segments.

6 Revenue and other income/(loss) and segment information (Continued)

The segment results for the six months ended 30 June 2017 are as follows:

	Real estate HK\$'000	Financial investments HK\$'000	Total HK\$'000
Revenue and other income/(loss)	<u>40,610</u>	<u>87,840</u>	<u>128,450</u>
Segment result	102,150	86,749	188,899
Finance income			1
Finance expense			(259)
Share of profits of joint ventures	4,427	–	4,427
Share of profits of an associate	17,137	–	<u>17,137</u>
Profit before income tax			210,205
Income tax expense			<u>(15,156)</u>
Profit attributable to equity holders of the Company			<u>195,049</u>
Other items			
Depreciation	(55)	(12)	(67)
Fair value gain on investment properties	<u>86,210</u>	<u>–</u>	<u>86,210</u>

The segment results for the six months ended 30 June 2016 are as follows:

	Real estate HK\$'000	Financial investments HK\$'000	Total HK\$'000
Revenue and other income/(loss)	<u>37,064</u>	<u>54,912</u>	<u>91,976</u>
Segment result	21,535	52,423	73,958
Finance income			17
Finance expense			(336)
Share of profits of joint ventures	4,401	–	4,401
Share of profit of an associate	1,033	–	<u>1,033</u>
Profit before income tax			79,073
Income tax expense			<u>(15,473)</u>
Profit attributable to equity holders of the Company			<u>63,600</u>
Other items			
Depreciation	(56)	(79)	(135)
Fair value gain on investment properties	<u>7,946</u>	<u>–</u>	<u>7,946</u>

Reportable segments' assets and liabilities are reconciled to total assets and liabilities below. Segment assets exclude investments in joint ventures and investment in an associate and segment liabilities exclude deferred income tax liabilities and short term bank loans which are managed on a central basis.

6 Revenue and other income/(loss) and segment information (Continued)

The segment assets and liabilities as at 30 June 2017 are as follows:

	Real estate HK\$'000	Financial investments HK\$'000	Total HK\$'000
Segment assets	2,179,484	1,736,781	3,916,265
Investments in joint ventures	108,750	–	108,750
Investment in an associate	66,844	–	66,844
			<u>4,091,859</u>
Segment liabilities	47,424	22,199	69,623
Unallocated liabilities			<u>67,158</u>
			<u>136,781</u>

The segment assets and liabilities as at 31 December 2016 are as follows:

	Real estate HK\$'000	Financial investments HK\$'000	Total HK\$'000
Segment assets	2,092,062	1,377,658	3,469,720
Investments in joint ventures	101,081	–	101,081
Investment in an associate	51,772	–	51,772
			<u>3,622,573</u>
Segment liabilities	47,415	8,770	56,185
Unallocated liabilities			<u>21,705</u>
			<u>77,890</u>

The Company is incorporated in Bermuda and is domiciled in Hong Kong. The Group's revenue and other income/(loss) from Hong Kong and from other countries for the period ended 30 June is analysed as follows:

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Hong Kong	48,827	34,459
United States of America	6,497	2,377
Europe	8,079	(2,126)
Taiwan	62,447	57,333
Other countries	2,600	(67)
	<u>128,450</u>	<u>91,976</u>

6 Revenue and other income/(loss) and segment information (Continued)

At 30 June 2017, the total of non-current assets other than financial instruments located/operated in Hong Kong and in other places are as follows:

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Hong Kong	2,179,567	2,091,412
Mainland China	173,799	153,070
	<u>2,353,366</u>	<u>2,244,482</u>

7 Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Depreciation	67	135
Employee benefit expense (including directors' emoluments)	13,889	12,322
Operating leases payments on land and buildings	1,915	1,890
Management fee expense in respect of investment properties	5,395	5,396

8 Finance income/(expense)

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Finance income		
Bank interest	<u>1</u>	<u>17</u>
Finance expense		
Net exchange loss on financing activities	(181)	(122)
Interest expense on bank loans	<u>(78)</u>	<u>(214)</u>
	<u>(259)</u>	<u>(336)</u>

9 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the period. Withholding tax on dividends receivable from overseas investments including joint ventures and an associate has been calculated at the rates of taxation prevailing in the countries in which the investments operate.

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Current income tax		
– Hong Kong profits tax	2,093	1,523
– Withholding tax	12,489	12,995
Deferred income tax	574	955
	<u>15,156</u>	<u>15,473</u>

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2017	2016
Earnings (HK\$'000)		
Profit attributable to equity holders of the Company	<u>195,049</u>	<u>63,600</u>
Number of shares (thousands)		
Weighted average number of ordinary shares in issue	<u>35,116</u>	<u>35,252</u>
Earnings per share (HK\$)		
Basic and diluted (Note)	<u>5.55</u>	<u>1.80</u>

Note:

The Company has no dilutive potential ordinary shares and basic earnings per share are equal to diluted earnings per share.

11 Dividends

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
2016 final dividend paid of HK\$0.60 (2016: 2015 final dividend paid of HK\$0.60) per share	21,070	21,150
2016 special dividend paid of HK\$0.40 (2016: 2015 special dividend paid of HK\$0.40) per share	<u>14,046</u>	<u>14,100</u>
	<u>35,116</u>	<u>35,250</u>

The Directors have not declared an interim dividend for the six months ended 30 June 2017 (2016: Nil).

12 Property, plant and equipment

	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
Property, plant and equipment	<u>482</u>	<u>549</u>

Movement during the period is set out below:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Net book amount as at 1 January	549	798
Additions	–	4
Depreciation	<u>(67)</u>	<u>(135)</u>
Net book amount as at 30 June	<u>482</u>	<u>667</u>

13 Investment properties

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Investment properties	<u>2,177,290</u>	<u>2,091,080</u>

Movement during the period is set out below:

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
At fair value		
Opening balance at 1 January	2,091,080	2,031,370
Additions	–	64
Fair value changes	<u>86,210</u>	<u>7,946</u>
Closing balance at 30 June	<u>2,177,290</u>	<u>2,039,380</u>

The Group's investment properties with an aggregate carrying value of HK\$2,024,000,000 (31 December 2016: HK\$1,942,000,000) have been mortgaged to a bank to secure general banking facilities of which HK\$36,000,000 (31 December 2016: Nil) was utilised as at 30 June 2017.

Valuation processes of the Group

The basis of the valuation of investment properties is fair value being the amount for which the property could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The investment properties were revalued by Prudential Surveyors (Hong Kong) Limited, independent qualified valuers not related to the Group, who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued, at 30 June 2017. For all investment properties, their current use equates to the highest and best use.

The Group's finance department reviews the valuations performed by the independent valuers for financial reporting purposes. This department reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuers at least once every six months, in line with the Group's interim and annual reporting dates.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuers.

13 Investment properties (Continued)

Valuation techniques

Fair value measurements using significant unobservable inputs

Fair values of completed industrial and commercial properties in Hong Kong are generally derived using direct comparison method. Direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

As at 30 June 2017, all investment properties are included in level 3 fair value hierarchy.

There were no change to the valuation techniques during the period and there were no transfers between fair value hierarchies during the period.

Information about fair value measurements using significant unobservable inputs for the Group's principal investment properties

Descriptions	Fair Value		Valuation techniques	Unobservable inputs	Relationship of unobservable inputs of fair value
	30 June 2017 HK\$'000	31 December 2016 HK\$'000			
Commercial	2,073,990	1,991,480	Direct comparison	Average unit rate – HK\$6,274 – HK\$13,445 per square feet (2016: HK\$6,047 – HK\$13,308 per square feet) Carpark: HK\$1,000,000 – HK\$1,350,000 per unit (2016: HK\$920,000 – HK\$1,260,000 per unit)	The higher the unit price, the higher the fair value
Industrial	103,300	99,600	Direct comparison	Average unit rate – HK\$2,454 per square feet (2016: HK\$2,367 per square feet) Carpark: HK\$400,000 – HK\$480,000 per unit (2016: HK\$380,000 – HK\$460,000 per unit)	The higher the unit price, the higher the fair value
	<u>2,177,290</u>	<u>2,091,080</u>			

14 Available-for-sale financial assets

The available-for-sale financial assets are primarily the Group's investment in the Shanghai Commercial & Savings Bank, Ltd., a licensed bank in Taiwan ("SCSB"), representing approximately 4% of the total issued share capital of SCSB, which is stated at fair value.

15 Trade and other receivables

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Trade receivables (Note)	830	830
Prepayments and deposits	7,706	6,892
Other receivables	603	1,825
Dividend receivables	62,446	–
Amount due from joint ventures	1,806	1,726
	<u>73,391</u>	<u>11,273</u>

15 Trade and other receivables (Continued)

Note:

- (a) The Group does not grant any credit period to its customers.

At 30 June 2017, the aging analysis of the trade receivables were as follows:

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Within 30 days	<u>830</u>	<u>830</u>

- (b) The amounts due from joint ventures are unsecured, interest-free and repayable on demand.

16 Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss with an aggregate carrying value of HK\$113,496,000 (31 December 2016: Nil) together with the bank deposit of HK\$22,598,000 (31 December 2016: Nil) have been pledged to secure general banking facilities of which HK\$8,879,000 (31 December 2016: Nil) was utilised as at 30 June 2017.

17 Share capital

	Number of Shares	Amount HK\$'000
Ordinary share, issued and fully paid:		
At 1 January 2017	35,226,238	3,523
Shares repurchased and cancelled	<u>(110,000)</u>	<u>(11)</u>
At 30 June 2017	<u>35,116,238</u>	<u>3,512</u>
At 1 January 2016	35,261,738	3,526
Shares repurchased and cancelled	<u>(11,500)</u>	<u>(1)</u>
At 30 June 2016	<u>35,250,238</u>	<u>3,525</u>

During the period ended 30 June 2017, the Company repurchased a total of 110,000 of its own shares through purchases on The Stock Exchange of Hong Kong Limited on 23 February 2017. The aggregate price of HK\$4,755,575 paid was charged against retained profits and the nominal value of the shares repurchased of HK\$11,000 was transferred to the capital redemption reserve.

During the period ended 30 June 2016, the Company repurchased a total of 11,500 of its own shares through purchases on The Stock Exchange of Hong Kong Limited on 25 January 2016 and 26 January 2016. The aggregate price of HK\$441,000 paid was charged against retained profits and the nominal value of the shares repurchased of HK\$1,150 was transferred to the capital redemption reserve.

18 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method.

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Deferred income tax liabilities		
– to be settled after more than 12 months	<u>(22,279)</u>	<u>(21,705)</u>

The net movement on the deferred income tax account is as follows:

	2017 HK\$'000	2016 HK\$'000
Opening balance at 1 January	(21,705)	(20,531)
Charge to profit and loss	<u>(574)</u>	<u>(955)</u>
Closing balance at 30 June	<u>(22,279)</u>	<u>(21,486)</u>

The movement in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax authority during the period is as follows:

Deferred income tax liabilities:

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Opening balance at 1 January	(21,986)	(20,973)
Charge to profit and loss	<u>(491)</u>	<u>(876)</u>
Closing balance at 30 June	<u>(22,477)</u>	<u>(21,849)</u>

Deferred income tax assets:

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Opening balance at 1 January	281	442
Charge to profit and loss	<u>(83)</u>	<u>(79)</u>
Closing balance at 30 June	<u>198</u>	<u>363</u>

Deferred income tax assets are recognised for tax losses carried forwards to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group did not recognise deferred income tax assets of HK\$1,148,000 (2016: HK\$1,175,000) in respect of tax losses amounting to HK\$6,957,000 (2016: HK\$7,123,000). These tax losses have no expiry date.

19 Trade and other payables

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Trade payables	3,562	3,735
Other payables	<u>51,083</u>	<u>51,989</u>
	<u>54,645</u>	<u>55,724</u>

At 30 June 2017, the aging analysis of trade payables were as follows:

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Within 30 days	3,222	3,188
31-60 days	<u>340</u>	<u>547</u>
	<u>3,562</u>	<u>3,735</u>

20 Banking facilities

As at 30 June 2017, the Group has general banking facilities of which HK\$44.9 million (31 December 2016: Nil) was utilised by the Group on short term bank loans.

21 Related party transactions

In addition to the related party information and transactions disclosed elsewhere in the condensed consolidated financial statements, the following is a summary of significant related party transactions entered into the ordinary course of business between the Group and its related parties during the period.

(a) Key management compensation

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Salaries and other employee benefits	10,339	9,581
Post-employment benefits	<u>36</u>	<u>36</u>
	<u>10,375</u>	<u>9,617</u>

(b) Related party balances

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Amounts due from joint ventures	<u>1,806</u>	<u>1,726</u>

On behalf of the Board

Rudolf Bischof
Chairman

Hong Kong, 25 August 2017