



Nanyang Holdings Limited

(incorporated in Bermuda with limited liability)

Stock Code: 212



INTERIM REPORT 2018

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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 Six months ended 30 June		Variance
	2018 HK\$'000	2017 HK\$'000	
Revenue and other (loss)/income	108,359	128,450	(16%)
Profit attributable to equity holders of the Company (Note)	287,395	195,049	47%
Profit attributable to equity holders of the Company after deducting: – changes in fair value of investment properties and related tax effects	(217,284)	(83,904)	159%
	70,111	111,145	(37%)
Earnings per share	HK\$8.22	HK\$5.55	48%
Earnings per share – after deducting the changes in fair value of investment properties and related tax effects	HK\$2.01	HK\$3.16	(36%)

Note: Profit attributable to equity holders of the Company for the six months ended 30 June 2017 comprised share of profits of an associate of HK\$17,137,000. The associate was subsequently dissolved in February 2018.

The Board of Directors of Nanyang Holdings Limited (“the Company”) announces that the unaudited Group results for the six months ended 30 June 2018 showed a profit after taxation of HK\$287.4 million (2017 profit of HK\$195 million). The current period’s earnings comprises mainly of the dividend receivable from The Shanghai Commercial & Savings Bank, Ltd., in respect of its 2017 earnings, of approximately HK\$59.3 million (after netting 21% withholding tax) and the revaluation gain of investment properties at fair value (including those owned by joint ventures) which resulted in a net gain of HK\$217.3 million (2017: HK\$83.9 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\$70.1 million (2017: profit of HK\$111.1 million, excluding the net effect of revaluing the investment properties at fair value and including the non-recurring income from an associate of HK\$17.1 million). Total earnings per share were HK\$8.22 (2017: HK\$5.55). However, if the net effect of revaluing the investment properties at fair value had been excluded, earnings per share would have been HK\$2.01 (2017: HK\$3.16, excluding the net effect of revaluing the investment properties at fair value and including the non-recurring income from an associate of HK\$17.1 million).

Business Review and Prospects

Real Estate

Hong Kong

Of the 290,000 sq.ft. of industrial/office space the Group holds at Nanyang Plaza, in Kwun Tong, presently is 95.9% leased. The value of our building continued to rise in the low interest rate environment. Major capital works, which began in 2017, to rectify certain infrastructure systems have progressed on schedule, with our share being approximately HK\$18 million. This should enhance the value of our building.

Shanghai

The Group’s 65% investment in Shanghai, Shanghai Sung Nan Textile Co. Ltd., reported steady results. It has a total leasable area of 28,142 sq.m. and is fully leased. The anchor tenant (who leased approximately 21,202 sq.m. or 75.3% of the total space) is a subsidiary of a Taiwan listed wedding banquet company. Its business continued to be stable. As the term of the joint venture will expire in less than 4 years, we, together with our Chinese partner, are exploring ways to extend the term of the existing joint venture.

Shenzhen

Southern Textile Company Limited, the Group’s 45% joint venture, continued to perform satisfactorily. Of the total leasable floor area of approximately 18,400 sq.m., presently is 100% leased to third parties.

Financial Investments

At the beginning of 2018, steady economic growth elevated equity markets to new highs. However, rising inflation, the imminent increase in U.S. interest rates and trade war rhetorics between the U.S. and China impacted market sentiment and caused volatility in the markets. From mid-February, the U.S. equity market was stable but Hong Kong and emerging markets declined due to the strengthening of the U.S. dollars. We took the opportunity to increase our positions cautiously in U.S., Asia and emerging markets equities and U.S. bonds during pullbacks and reduced emerging market bonds.

Business Review and Prospects *(Continued)*

Financial Investments *(Continued)*

For the six months ended 30 June 2018, financial assets at fair value through profit or loss, classified as current assets, was HK\$330.7 million, which represented approximately 7.1% of the total assets of the Group. The investment accounts including cash held by the portfolios decreased by 2.5%. This comprises over 400 individual holdings. The Group recorded net realised and unrealised fair value losses of HK\$10.7 million and investment income of HK\$2.4 million. The year-to-date performance of the investment portfolios up to 20 August 2018 decreased by 2.38%. Equities comprised approximately 77% (of which U.S. 39%; European 24%; Japanese 8%; Asia ex-Japan 19% and Emerging Markets 10%), bonds 21.9% (of which U.S. 54%; European 12%; Emerging Markets 27% and others 7%) and commodities 1.1%.

Second quarter earnings, for the current reporting season, reported by U.S. firms were above consensus and the U.S. equity market continued to perform satisfactorily. However, the continued trade war tensions between the U.S. and China, have heightened trade and political uncertainty and increased market volatility. This continued to have a negative impact on equity markets especially in China and Hong Kong.

The Group's investment in The Shanghai Commercial & Savings Bank, Ltd. ("SCSB"), a licensed bank in Taiwan, represents approximately 4.1% of the total issued share capital of SCSB. It is classified under non-current assets as a financial asset at fair value through other comprehensive income as there is no intention to dispose of it within 12 months of this report date. The investment is stated at fair value and, in the first half of 2018, it performed satisfactorily. For the six months ended 30 June 2018, its value increased by HK\$89.8 million or around 6.3%. SCSB has applied and has received approval from the Taiwan authorities to have its shares listed, which is expected to be later this year. In August, the Group received a net cash dividend of approximately HK\$59.3 million (after netting 21% withholding tax) in respect of its 2017 earnings, as compared to net cash dividend received last year of approximately HK\$50.6 million, in respect of its 2016 earnings. The Board continues to view this as a sound and long term investment.

Presently SCSB has 69 branches in Taiwan, one in Hong Kong, one in Vietnam and one in Singapore. They also have three representative offices, one in Jakarta, Indonesia, one in Bangkok, Thailand and one in Phnom Penh, Cambodia. SCSB holds a 57.6% interest in Shanghai Commercial Bank Limited ("SCB") in Hong Kong. SCB has 44 branches in Hong Kong, three in China and four branches overseas. The audited net income attributable to owners of SCSB for the three months ended 31 March 2018 was approximately NT\$3,844.8 million (2017 same period: unaudited net income of approximately NT\$3,734.8 million), representing an increase of 2.9%. Total equity attributable to owners of SCSB at 31 March 2018 was approximately NT\$123,674.2 million (31/12/2017: approximately NT\$122,409.8 million), an increase of 1.0%. (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\$2,332 million (31/12/2017: HK\$2,107 million) have been mortgaged to a bank to secure general banking facilities. As at 30 June 2018, no bank facilities were utilized (31/12/2017: Nil). The Group also borrowed Euro 1 million (approximately HK\$9.2 million as at 30 June 2018) 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 2018, the Company repurchased 167,500 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 paid per share</i>		<i>Aggregate price HK\$</i>
		<i>Highest HK\$</i>	<i>Lowest HK\$</i>	
2018				
January	28,000	53.00	50.55	1,456,900
February	112,500	57.50	50.50	6,033,575
April	18,000	57.00	57.00	1,026,000
May	9,000	57.00	56.90	512,775
	<u>167,500</u>			<u>9,029,250</u>

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 2018, 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	46.51%
Lincoln C. K. Yung	2,240,000	10,000	–	2,250,000	6.45%
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 2018, 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)	15.76%

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 2018. 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.

Change in Director's Information under Rule 13.51B(1) of the Listing Rules

Mr. Lincoln C.K. Yung, the Deputy Managing Director of the Company, his appointment as the Honorary Chairman of Shanghai Commercial Bank Limited ended on 20 April 2018.

Mr. Robert Tsai To Sze, the Independent Non-executive director of the Company, resigned as independent non-executive director of Min Xin Holdings Limited with effect from 1 April 2018.

Saved as disclosed above, there is no other change to Director's information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 2018, 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 2018.

Audit Committee and Review of Results

The Audit Committee of the Company 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 2018 with the management. The unaudited interim financial statements of the Group for the six months ended 30 June 2018 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 2018**

	Note	Six months ended 30 June	
		2018 HK\$'000	2017 HK\$'000
Revenue	6	119,016	105,168
Other (loss)/income	6	(10,657)	23,282
Revenue and other (loss)/income	6	108,359	128,450
Direct costs		(8,074)	(7,658)
Gross profit		100,285	120,792
Administrative expenses		(19,370)	(19,823)
Other operating (expenses)/income, net		(167)	1,720
Changes in fair value of investment properties		220,391	86,210
Operating profit	7	301,139	188,899
Finance income	8	661	1
Finance expense	8	(36)	(259)
Share of profits of joint ventures		4,098	4,427
Share of profits of an associate		–	17,137
Profit before income tax		305,862	210,205
Income tax expense	9	(18,467)	(15,156)
Profit attributable to equity holders of the Company		287,395	195,049
Earnings per share (basic and diluted)	10	HK\$8.22	HK\$5.55

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Profit for the period	287,395	195,049
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Fair value gains on available-for-sale financial assets	–	246,931
Share of other comprehensive income of joint ventures and an associate accounted for using equity method	(1,452)	1,177
Currency translation differences	7,673	7,110
Items that may not be reclassified subsequently to profit or loss		
Fair value gains on financial assets at fair value through other comprehensive income	83,408	–
Other comprehensive income for the period, net of tax	89,629	255,218
Total comprehensive income for the period attributable to equity holders of the Company	377,024	450,267

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2018

	Note	30 June 2018 HK\$'000	31 December 2017 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	354	421
Investment properties	13	2,497,620	2,269,120
Investments in joint ventures		111,929	109,283
Prepayment	15	9,755	15,407
Available-for-sale financial assets	14	–	1,434,081
Financial assets at fair value through other comprehensive income	14	1,518,823	–
Non-current financial assets at fair value through profit or loss	16	4,581	–
		<u>4,143,062</u>	<u>3,828,312</u>
Current assets			
Trade and other receivables	15	86,128	11,248
Financial assets at fair value through profit or loss	16	330,653	301,057
Cash and bank balances			
– Pledged bank deposits		14,386	24,989
– Cash and cash equivalents		101,173	172,148
		<u>532,340</u>	<u>509,442</u>
Total assets		<u>4,675,402</u>	<u>4,337,754</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	3,490	3,507
Other reserves		1,322,626	1,233,558
Retained profits		3,248,335	3,016,513
Total equity		<u>4,574,451</u>	<u>4,253,578</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	18	23,419	22,960
Current liabilities			
Trade and other payables	19	49,264	50,712
Current income tax liabilities		19,070	1,101
Short-term borrowing	20	9,198	9,403
		<u>77,532</u>	<u>61,216</u>
Total liabilities		<u>100,951</u>	<u>84,176</u>
Total equity and liabilities		<u>4,675,402</u>	<u>4,337,754</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

	Six months ended 30 June 2018			
	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 2018	3,507	1,233,558	3,016,513	4,253,578
Effect of adoption of HKFRS 9	—	(578)	578	—
Restated balance at 1 January 2018	3,507	1,232,980	3,017,091	4,253,578
Total comprehensive income for the period ended 30 June 2018	—	89,629	287,395	377,024
Transactions with owners, recognised directly in equity:				
Dividends relating to 2017 paid in June 2018 (Note 11)	—	—	(47,122)	(47,122)
Shares repurchased and cancelled	(17)	17	(9,029)	(9,029)
Balance at 30 June 2018	3,490	1,322,626	3,248,335	4,574,451
	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	3,512	1,092,715	2,858,851	3,955,078

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Cash flows (used in)/generated from operating activities	(26,278)	3,126
Net cash inflows/(outflows) from investing activities	661	(3,887)
Cash flows from financing activities		
Dividends paid	(47,122)	(35,116)
(Repayment)/drawdown of bank loans	(205)	44,879
Other cash outflows from financing activities, net	(9,066)	(5,014)
Decrease/(increase) in pledged bank deposits	10,603	(22,598)
Net cash outflows from financing activities	(45,790)	(17,849)
Net decrease in cash and cash equivalents	(71,407)	(18,610)
Cash and cash equivalents at 1 January	172,148	58,896
Currency translation difference	432	253
Cash and cash equivalents at 30 June	101,173	40,539
Analysis of cash and cash equivalents		
Cash and bank balances	101,173	40,539

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 27 August 2018.

2 Basis of preparation

This Interim Financial Information for the six months ended 30 June 2018 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 2017 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 2017 annual financial statements, except for the adoption of the new standard, interpretation and amendments to standards effective for the year ending 31 December 2018.

(a) New standard, interpretation and amendments to standards effective in current accounting period and are relevant to the Group’s operations

During the period ended 30 June 2018, the Group has adopted the following new standard, interpretation and amendments to standards which are mandatory for accounting periods beginning on 1 January 2018:

HKAS 40 (Amendments)	Transfers of Investment Property
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Revenue from Contracts with Customers – Clarifications
Annual Improvements	Annual Improvements to HKFRSs 2014–2016 Cycle

The impact of the adoption of HKFRS 9 is disclosed in Note 3(c) below. The adoption of other new standard, interpretation and 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, interpretation and amendments to standards that are not yet effective and have not been early adopted by the Group*

The following new standards, interpretation and amendments to standards have been published which are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods but have not been early adopted by the Group:

HKAS 19 (Amendments)	Plan amendment, curtailment or settlement ⁽¹⁾
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures ⁽¹⁾
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ⁽¹⁾
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation and Modification of Financial Liabilities ⁽¹⁾
HKFRS 16	Leases ⁽¹⁾
HKFRS 17	Insurance Contracts ⁽²⁾
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾
Annual Improvements	Annual Improvements to HKFRSs 2015–2017 Cycle ⁽¹⁾

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

⁽²⁾ Effective for accounting periods beginning on or after 1 January 2021

⁽³⁾ Effective date is to be determined

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\$2,276,475. 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.

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. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group.

3 Significant accounting policies (Continued)

(c) Changes in accounting policy

Under the adoption of HKFRS 9, the Group has elected to use a modified retrospective approach for transition. The reclassifications and the adjustments arising from the new standard are therefore not restated in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The table below shows the adjustments recognised in the opening balances of each individual financial statement line item. Line items that were not affected by the changes have not been included.

Unaudited Condensed Consolidated Balance Sheet (extract)

	As at 31 December 2017	Effects of the adoption of HKFRS 9 HK\$'000	As at 1 January 2018 As restated HK\$'000
Non-current assets			
Available-for-sale financial assets	1,434,081	(1,434,081)	–
Financial assets at fair value through other comprehensive income	–	1,429,142	1,429,142
Non-current financial assets at fair value through profit or loss	–	4,939	4,939
Equity			
Other reserves	1,233,558	(578)	1,232,980
Retained profits	3,016,513	578	3,017,091

On 1 January 2018, the Group's management has assessed the business models and the contractual cash flow characteristics of each of the financial instruments, and has classified them into appropriate categories under HKFRS 9.

The Group has elected to present changes in the fair value of its equity investments not held for trading (previously classified as available-for-sale financial assets) in other comprehensive income. Under this election, dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established. Changes in fair value are recognised in other comprehensive income and never recycled to profit and loss, even if the asset is impaired, sold or otherwise derecognised. Accordingly, available-for-sale financial assets with carrying value of HK\$1,429.1 million were reclassified to financial assets at fair value through other comprehensive income (FVOCI) and the corresponding accumulated fair value gains of HK\$1,076.8 million were transferred from available-for-sale investments reserve to financial assets at FVOCI reserve on 1 January 2018 respectively.

3 Significant accounting policies *(Continued)*

(c) Changes in accounting policy (Continued)

The investments in funds do not meet the criteria to be classified as FVOCI and hence, available-for-sale financial assets with carrying value of HK\$4.9 million were reclassified to non-current financial assets at fair value through profit or loss on 1 January 2018. The corresponding accumulated fair value gains of HK\$0.6 million were transferred from the available-for-sale investments reserve to retained profits on 1 January 2018. Subsequent fair value changes will be recognised in the profit and loss.

The results of the adopted new impairment model as at 1 January 2018 have not resulted in material impact on the carrying amount of the Group's financial assets.

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 condensed consolidated interim 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 2017.

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 2018. 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	228,244	15,395	91,595	335,234
Financial assets at fair value through other comprehensive income	1,518,823	–	–	1,518,823
Total assets	1,747,067	15,395	91,595	1,854,057

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

	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	211,282	20,138	69,637	301,057
Available-for-sale financial assets	1,429,407	–	4,674	1,434,081
Total assets	1,640,689	20,138	74,311	1,735,138

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 2017.

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

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

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Revenue		
Gross rental income from investment properties	35,969	35,100
Investment income from financial assets at fair value through profit or loss	2,394	1,948
Dividend income from financial assets at fair value through other comprehensive income	75,054	–
Dividend income from available-for-sale financial assets	–	62,447
Management fee income from investment properties	5,419	5,390
Other	180	283
	<u>119,016</u>	<u>105,168</u>
Other (loss)/income		
Net realised and unrealised (losses)/gains on financial assets at fair value through profit or loss	<u>(10,657)</u>	<u>23,282</u>
Revenue and other (loss)/income	<u>108,359</u>	<u>128,450</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 (loss)/income and segment information (Continued)

The segment results for the six months ended 30 June 2018 are as follows:

	Real estate HK\$'000	Financial investments HK\$'000	Total HK\$'000
Revenue and other (loss)/income	<u>41,388</u>	<u>66,971</u>	<u>108,359</u>
Segment result	237,185	63,954	301,139
Finance income			661
Finance expense			(36)
Share of profits of joint ventures	4,098	–	<u>4,098</u>
Profit before income tax			305,862
Income tax expense			<u>(18,467)</u>
Profit attributable to equity holders of the Company			<u>287,395</u>
Other items			
Depreciation	(55)	(12)	(67)
Fair value gain on investment properties	<u>220,391</u>	<u>–</u>	<u>220,391</u>

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 (loss)/income	<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>

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

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

The segment assets and liabilities as at 30 June 2018 are as follows:

	Real estate HK\$'000	Financial investments HK\$'000	Total HK\$'000
Segment assets	2,497,794	2,065,679	4,563,473
Investments in joint ventures	111,929	–	111,929
			<u>4,675,402</u>
Segment liabilities	48,954	19,380	68,334
Unallocated liabilities			32,617
			<u>100,951</u>

The segment assets and liabilities as at 31 December 2017 are as follows:

	Real estate HK\$'000	Financial investments HK\$'000	Total HK\$'000
Segment assets	2,269,672	1,958,799	4,228,471
Investments in joint ventures	109,283	–	109,283
			<u>4,337,754</u>
Segment liabilities	48,913	2,900	51,813
Unallocated liabilities			32,363
			<u>84,176</u>

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

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

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Hong Kong	39,228	48,827
United States of America	(1,042)	6,497
Europe	(3,095)	8,079
Taiwan	75,054	62,447
Other countries	(1,786)	2,600
	<u>108,359</u>	<u>128,450</u>

At 30 June 2018, the total of non-current assets other than financial instruments located/operated in Hong Kong and in other places are as follows:

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
	Hong Kong	2,507,549
Mainland China	112,109	109,476
	<u>2,619,658</u>	<u>2,394,231</u>

7 Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Depreciation	67	67
Employee benefit expense (including directors' emoluments)	13,862	13,889
Operating leases payments on land and buildings	1,936	1,915
Management fee expense in respect of investment properties	5,395	5,395
	<u>5,395</u>	<u>5,395</u>

8 Finance income/(expense)

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Finance income		
Net exchange gain on financing activities	272	–
Bank interest	389	1
	<u>661</u>	<u>1</u>
Finance expense		
Net exchange loss on financing activities	–	(181)
Interest expense on bank loans	(36)	(78)
	<u>(36)</u>	<u>(259)</u>

9 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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	
	2018 HK\$'000	2017 HK\$'000
Current income tax		
– Hong Kong profits tax	2,245	2,093
– Withholding tax	15,763	12,489
Deferred income tax	459	574
	<u>18,467</u>	<u>15,156</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	
	2018	2017
Earnings (HK\$'000)		
Profit attributable to equity holders of the Company	<u>287,395</u>	<u>195,049</u>
Number of shares (thousands)		
Weighted average number of ordinary shares in issue	<u>34,945</u>	<u>35,116</u>
Earnings per share (HK\$)		
Basic and diluted (Note)	<u>8.22</u>	<u>5.55</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	
	2018	2017
	HK\$'000	HK\$'000
2017 final dividend paid of HK\$0.70 (2017: 2016 final dividend paid of HK\$0.60) per share	24,434	21,070
2017 special dividend paid of HK\$0.65 (2017: 2016 special dividend paid of HK\$0.40) per share	<u>22,688</u>	<u>14,046</u>
	<u>47,122</u>	<u>35,116</u>

The Directors have not declared an interim dividend for the six months ended 30 June 2018 (2017: Nil).

12 Property, plant and equipment

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Property, plant and equipment	354	421

Movement during the period is set out below:

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Net book amount as at 1 January	421	549
Depreciation	(67)	(67)
Net book amount as at 30 June	354	482

13 Investment properties

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Investment properties	2,497,620	2,269,120

Movement during the period is set out below:

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
At fair value		
Balance at 1 January	2,269,120	2,091,080
Additions	8,109	–
Fair value changes	220,391	86,210
Balance at 30 June	2,497,620	2,177,290

The Group's investment properties with an aggregate carrying value of HK\$2,332,000,000 (31 December 2017: HK\$2,107,000,000) have been mortgaged to a bank to secure general banking facilities. As at 30 June 2018 and 31 December 2017, no bank facilities were utilised.

13 Investment properties (Continued)

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, an independent qualified valuer not related to the Group, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued, at 30 June 2018. 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 valuer for financial reporting purposes. This department reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuer 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 valuer.

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 2018, 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.

13 Investment properties (Continued)

Valuation techniques (Continued)

Significant inputs used to determine fair value

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 2018 HK\$'000	31 December 2017 HK\$'000			
Commercial	2,386,320	2,161,220	Direct comparison	Average unit rate – HK\$7,187 – HK\$14,610 per square feet (31 December 2017: HK\$6,489 – HK\$14,583 per square feet) Carpark: HK\$1,210,000 – HK\$1,634,000 per unit (31 December 2017: HK\$1,100,000 – HK\$1,485,000 per unit)	The higher the unit price, the higher the fair value
Industrial	111,300	107,900	Direct comparison	Average unit rate – HK\$2,642 per square feet (31 December 2017: HK\$2,563 per square feet) Carpark: HK\$454,000 – HK\$544,000 per unit (31 December 2017: HK\$424,000 – HK\$508,800 per unit)	The higher the unit price, the higher the fair value
	2,497,620	2,269,120			

14 Available-for-sale financial assets/financial assets at fair value through other comprehensive income

The financial assets at fair value through other comprehensive income (2017: 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 Prepayment, trade and other receivables

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Non-current asset		
Prepayment	9,755	15,407
Current assets		
Trade receivables (Note a)	888	862
Other receivables, prepayments and deposits	8,799	8,421
Dividend receivables	74,726	–
Amounts due from joint ventures (Note b)	1,715	1,965
	<u>86,128</u>	<u>11,248</u>
Total prepayment, trade and other receivables	<u>95,883</u>	<u>26,655</u>

Note:

- (a) The Group does not grant any credit period to its customers. At 30 June 2018, the aging analysis of the trade receivables were as follows:

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Within 30 days	888	862

- (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\$127,668,000 (31 December 2017: HK\$106,724,000) together with the bank deposit of HK\$14,386,000 (31 December 2017: HK\$24,989,000) have been pledged to the short-term borrowing.

17 Share capital

	Number of Shares	Amount HK\$'000
Ordinary share, issued and fully paid:		
At 1 January 2018	35,066,238	3,507
Shares repurchased and cancelled	<u>(167,500)</u>	<u>(17)</u>
At 30 June 2018	<u>34,898,738</u>	<u>3,490</u>
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>

During the period ended 30 June 2018 and 30 June 2017, the Company repurchased a total of 167,500 (2017: 110,000) of its own shares through purchases on The Stock Exchange of Hong Kong Limited. The repurchased shares were subsequently cancelled. The aggregate price of HK\$9,029,250 (2017: HK\$4,755,575) paid was charged against retained profits and the nominal value of the shares repurchased of HK\$16,750 (2017: HK\$11,000) 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 2018 HK\$'000	31 December 2017 HK\$'000
Deferred income tax liabilities		
– to be settled after more than 12 months	<u>(23,419)</u>	<u>(22,960)</u>
The net movement on the deferred income tax account is as follows:		
	2018 HK\$'000	2017 HK\$'000
Balance at 1 January	(22,960)	(21,705)
Charged to the consolidated income statement (Note 9)	<u>(459)</u>	<u>(574)</u>
Balance at 30 June	<u>(23,419)</u>	<u>(22,279)</u>

18 Deferred income tax (Continued)

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 in respect of accelerated tax depreciation:

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Balance at 1 January	(23,088)	(21,986)
Charged to the consolidated income statement	(459)	(491)
Balance at 30 June	<u>(23,547)</u>	<u>(22,477)</u>

Deferred income tax assets in respect of tax losses:

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Balance at 1 January	128	281
Charged to the consolidated income statement	–	(83)
Balance at 30 June	<u>128</u>	<u>198</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\$139,000 (31 December 2017: HK\$226,000) in respect of tax losses amounting to HK\$840,000 (31 December 2017: HK\$1,367,000). These tax losses have no expiry date.

19 Trade and other payables

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Trade payables	4,074	3,656
Rental and management fee deposits	19,235	18,139
Other payables	25,955	28,917
	<u>49,264</u>	<u>50,712</u>

At 30 June 2018, the aging analysis of trade payables were as follows:

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Within 30 days	3,528	3,110
31–60 days	546	546
	<u>4,074</u>	<u>3,656</u>

20 Short-term borrowing

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Secured borrowing from a financial institution (Note)	9,198	9,403

Note:

- (a) The borrowing had an effective interest rate of 0.75% per annum at 30 June 2018 (31 December 2017: 0.75% per annum).
- (b) The carrying amount of the borrowing approximated its fair value due to short-term maturity and is denominated in Euro.
- (c) At 30 June 2018 and 31 December 2017, the borrowing was secured by one or more of the following:
- (i) pledge of financial assets at fair value through profit and loss (Note 16);
 - (ii) pledge of bank deposits.

21 Related party transactions

In addition to the related party information and transactions disclosed elsewhere in the condensed consolidated interim financial information, 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	
	2018	2017
	HK\$'000	HK\$'000
Salaries and other employee benefits	10,327	10,339
Post-employment benefits	36	36
	10,363	10,375

(b) Related party balances

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Amounts due from joint ventures	1,715	1,965

On behalf of the Board

Rudolf Bischof
Chairman

Hong Kong, 27 August 2018