



INTERIM REPORT 2016

**YUGANG**

**YUGANG INTERNATIONAL LIMITED**

Stock Code: 00613

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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

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

#### Non-Executive Director

Mr. Lee Ka Sze, Carmelo

#### Independent Non-Executive Directors

Mr. Luk Yu King, James  
Mr. Leung Yu Ming, Steven  
Mr. Ng Kwok Fu

### COMMITTEES

#### Executive Committee

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

#### Audit Committee

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

#### Nomination Committee

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

#### Remuneration Committee

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

### AUTHORISED REPRESENTATIVES

Mr. Cheung Chung Kiu  
Mr. Yuen Wing Shing

### COMPANY SECRETARY

Mr. Albert T. da Rosa, Jr.

### EXTERNAL AUDITORS

Ernst & Young

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited  
Bank of China (Hong Kong) Limited

### LEGAL ADVISERS

#### Bermuda:

Conyers Dill & Pearman

#### Hong Kong:

Woo Kwan Lee & Lo  
Cheung Tong & Rosa Solicitors

### REGISTERED OFFICE

Clarendon House  
Church Street  
Hamilton HM11  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 3301-3307 China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong  
Tel: (852) 2820 7000  
Fax: (852) 2827 5549  
Email: [investors@yugang.com.hk](mailto:investors@yugang.com.hk)

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited  
The Belvedere Building  
69 Pitts Bay Road  
Pembroke HM08  
Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited  
Level 22 Hopewell Centre  
183 Queen's Road East  
Hong Kong

### WEBSITE

[www.yugang.com.hk](http://www.yugang.com.hk)

### STOCK CODE

00613

## Management Discussion and Analysis

The board (the “**Board**”) of directors (the “**Director(s)**”) of Yugang International Limited (the “**Company**”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2016.

### RESULTS

The Group reported a loss attributable to equity holders of approximately HK\$0.7 million for the six months ended 30 June 2016, as compared with the profit attributable to shareholders of HK\$189.0 million for the corresponding period last year. The loss was mainly attributable to (i) an unrealized fair value loss of HK\$49.2 million on the revaluation of listed equity investments at fair value through profit or loss, as compared with an unrealized fair value gains of HK\$89.5 million for the corresponding period last year, mainly as a result of the turbulent equity market in Hong Kong during the period; and (ii) a decrease of approximately HK\$49.7 million in share of profit of an associate of the Company, Y. T. Realty Group Limited (“**Y. T. Realty**”), following completion of disposal of its investment properties in Hong Kong on 29 February 2016, details of disposal were contained in its announcements dated 17 December 2015 and 29 February 2016, and circular dated 29 January 2016.

Basic loss per share for the six months ended 30 June 2016 was HK0.01 cent, whereas basic earnings per share of HK2.03 cents were recorded for the corresponding period last year.

### BUSINESS REVIEW

During the first half of 2016, Hong Kong economy was affected by the global economic uncertainties, sluggish trade performance, weakening tourist spending and volatile financial markets. As such, the economic growth momentum of Hong Kong weakened with most major economic indicators pointed to a persistent downtrend including shrinkage of retail sales, slowdown of private consumption and contracting exports etc.

As the economic recovery in the developed economies such as Europe, U.S.A. and Japan was slow and sluggish for the period, the global trade demand continued to be restrained. In addition, the economy of China continued to be affected by the weak external environment and its own economic rebalancing policies including deleveraging, reduction of capacity, destocking and supply side reforms etc.

The financial market in Hong Kong was volatile and turbulent in the first half of 2016 and had been continuously affected by various uncertainties such as market expectation of U.S. interest rate hike, Brexit referendum, the plunge of A shares of PRC after the launch of Circuit Breaker, low commodity prices, capital outflows from China and devaluation of Renminbi etc. Market sentiments were mostly bearish and the risk appetite and tolerance of investors became low during the period. Asset prices were therefore under pressure in a slackening market condition. The Group’s treasury management business was therefore unavoidably affected to record a negative return on the listed equity investments.

### Property and Infrastructure Investment Business

#### *Property Investment Business*

The Group’s property investment business is principally carried on through an associate, Y. T. Realty, the shares of which are traded on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). On 29 February 2016, Y. T. Realty announced the completion of disposal of the investment properties in Hong Kong and the acquisition of the remaining 50% interest in a joint venture, the sole asset of which was an investment property in London. Since then, Y. T. Realty indirectly holds 100% interests in an investment property named One Chapel Place which is situated at 5, 6 and 7 Vere Street and 10 Chapel Place, London (the “**Investment Property**”).

## Management Discussion and Analysis

The Investment Property, which is located in the prime central London business location and the leasing demand for office and retail is generally stable and strong, has therefore maintained a high occupancy and rental rate throughout the period. However, following the confirmation of Brexit which exacerbated investors' worries about the U. K. economy downturn, the commercial property market in London was immediately impacted with a slight downward pressure. As a result, Y. T. Realty recorded a fair value loss of equivalent to HK\$5.9 million on revaluation of the Investment Properties as at the end of the reporting period, as compared with a fair value gain of approximately HK\$115.1 million on the revaluation of investment properties in Hong Kong in the corresponding period last year.

The gross rental income of Y. T. Realty for the six months ended 30 June 2016 decreased to HK\$44.4 million as compared to HK\$102.8 million in the corresponding period last year. The profit attributable to equity holders of Y. T. Realty for the period was HK\$168.6 million, representing a decrease of HK\$145.7 million from the corresponding period last year. The Group's share of profit of Y. T. Realty for the period was HK\$57.6 million (2015: HK\$107.3 million).

### *Infrastructure Investment Business*

The infrastructure business of the Group comprised investments in tunnels, transports and logistic operations. It was carried on through The Cross-Harbour (Holdings) Limited ("**Cross-Harbour**"), whose shares are traded on the main board of the Stock Exchange. Cross-Harbour currently holds 50% and 39.5% equity interests in Western Harbour Tunnel Company Limited and Tate's Cairn Tunnel Company Limited respectively, both of which generate a steady stream of toll income with a stable growth.

The GDP growth of Hong Kong slowed down in the first half of 2016. However, the local private consumption expenditure still grew moderately as the low unemployment rate and moderate increase in wages and income provided support to the domestic consumption. Therefore, the transport and tunnel operations of Cross-Harbour remained to grow steadily for the period with an overall slight increase in daily traffic throughput as compared to the corresponding period last year.

The profit after tax and non-controlling interests of Cross-Harbour for the period was HK\$123.1 million, representing a decrease of HK\$192.1 million or 60.9% from the corresponding period last year. It was mainly attributable to a fair value loss of HK\$138.2 million on the listed equity investments held for trading and an impairment loss of HK\$56.6 million on the available-for-sale equity investments as a result of the volatile and turbulent equity market in Hong Kong during the period.

### **Treasury Management Business**

During the period under review, Hong Kong stock market fluctuated vigorously with Hang Seng Index down to the lowest of 18,278 points in February 2016. On one hand, the implementation of China's Circuit Breaker in early January crashed the A shares market which in turn caused panic across the global financial markets. On the other hand, a bearish outlook of Renminbi together with continuous capital outflow from China weakened the market confidence and the volatility and vulnerability of financial market was further aggravated by the uncertainties of Brexit.

The Group therefore recorded a loss in treasury management segment for the period as a result of an unrealized fair value loss of HK\$49.2 million on listed equity investments, as compared with an unrealized fair value gain of HK\$89.5 million in the last corresponding period. No realized gain on disposal of listed equity investments was reported for the period whereas a gain of HK\$13.3 million on disposal of listed equity investments was recorded in the corresponding period last year.

The Group has actively engaged in money lending business as one of its core businesses, with surplus working capital during the period. As a result, an interest income of HK\$6.4 million was derived from the money lending business for the period, representing a significant increase of HK\$6.1 million from the corresponding period last year.

# Management Discussion and Analysis

## OUTLOOK

Looking forward, the Group holds a cautious view towards global economy and equity markets for the year of 2016. The impact of Brexit remains to be seen and the economy of China is still facing strong headwinds including economic uncertainties arising from policies of deleveraging, reduction of capacity and destocking with a view to promoting a healthy economic growth in the long term. Hong Kong economy is also undergoing downward pressure from the import and export trade, tourism and retail sectors. Although it is expected that the Federal Reserve of U.S. will keep interest rate low for an extended period following the Brexit, the Group remains conservative on the performance of its treasury management segment as the financial market may be vulnerable in the short term. Together with an expected decrease of rental income of Y. T. Realty following the completion of disposal of its investment properties in Hong Kong on 29 February 2016, the Group remains cautious about its overall performance in 2016.

## FINANCIAL REVIEW

### Revenue

The revenue of the Group for the six months ended 30 June 2016 was HK\$24.6 million, representing a decrease of HK\$2.9 million or 10.5% from the corresponding period last year. During the period, the Group did not dispose of any listed equity investments whereas a gain of HK\$13.3 million on disposal of listed equity investments was recorded in the corresponding period last year. Dividend income from listed equity investments increased by \$3.1 million as compared to the corresponding period last year. Interest income from the money lending business of the Group increased substantially to HK\$6.4 million (2015: HK\$0.3 million) as the Group has actively engaged in its money lending business during the period.

### Other Comprehensive Income

The Group recorded other comprehensive loss of HK\$128.4 million for the six months ended 30 June 2016 (2015: other comprehensive income of HK\$163.2 million). It was mainly attributable to a fair value loss of HK\$96.3 million on an available-for-sale investment of the Group for the period (2015: fair value gain of HK\$140.6 million).

### Net Asset Value

The unaudited consolidated net asset value of the Group as at 30 June 2016 was HK\$2,910.2 million, representing a decrease of HK\$166.4 million from the end of last financial year. The unaudited consolidated net asset value per share as at 30 June 2016 was HK\$0.313.

### Capital Structure

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

The Group persistently adopts conservative treasury policies in cash and financial management. Cash is generally placed in short-term deposits mostly denominated in Hong Kong dollars. The Group does not use any financial instruments for hedging purpose.

### Liquidity and Financial Resources

As at 30 June 2016, the Group's cash and bank balances and time deposits were HK\$891.4 million whilst the cash and cash equivalents and the listed equity investments in aggregate were HK\$1,029.9 million. The current ratio of the Group increased to 48.0 (31 December 2015: 2.8) which signified a strong and healthy financial position.

## Management Discussion and Analysis

The bank borrowing of the Group as at 30 June 2016 was HK\$30.0 million. The bank loan, being a term loan repayable within five years and subject to a normal and general term of repayment on demand clause after 30 September 2017, was interest-bearing at a variable rate based on Hong Kong Interbank Offered Rate and denominated in Hong Kong dollars.

The maturity profile of the Group's bank borrowing as at 30 June 2016 was set out as follows:

|  | HK\$              |
|--|-------------------|
| Due within one year or on demand                   | 15,000,000        |
| Due more than one year but not exceeding two years | 15,000,000        |
| Total  | <u>30,000,000</u> |

As at 30 June 2016, the Group had unutilized short-term banking facilities of approximately HK\$150.0 million.

### Exposure to Fluctuation in Exchange Rates and Related Hedges

The Group's major sources of income, expenses, major assets and bank deposits were denominated in Hong Kong dollars and U.S. dollars, hence the Group's exposure to fluctuation in foreign exchange rates was minimal. The Group did not have any related hedging instruments.

### Gearing ratio

As at 30 June 2016, the gearing ratio of the Group, as measured by dividing the net debt to shareholders' equity, was inapplicable as it became negative when cash and cash equivalents could entirely cover the total debt (31 December 2015: 1.6%). Net debt includes bank borrowings, other payables and accruals, net of cash and cash equivalents.

### Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2016.

### Charge on Group Assets

As at 30 June 2016, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$70.0 million as securities for general banking facilities granted to the Group.

### Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

The Group has held significant equity interests for long term in Y. T. Realty and C C Land Holdings Limited ("C C Land", the shares of which are listed on the main board of the Stock Exchange).

The Group held a substantial equity interest in Y. T. Realty which was classified as an investment in an associate. The carrying value of the Group's investment in Y. T. Realty was HK\$1,246.8 million as at 30 June 2016, representing a significant decrease of HK\$1,011.9 million from the end of last financial year due to the distribution of a special dividend of HK\$1,037.4 million from Y. T. Realty during the period. The profit attributable to shareholders of Y. T. Realty for the period was HK\$168.6 million (2015: HK\$314.3 million) and the Group's share of profit of an associate was HK\$57.6 million (2015: HK\$107.3 million). Detailed discussion on the performance of Y. T. Realty is contained in the section headed Business Review.

## Management Discussion and Analysis

The Group held a significant equity interest in C C Land as an available-for-sale investment with a fair value of HK\$533.8 million. A fair value loss of HK\$96.3 million was reported for the period as other comprehensive loss in the Consolidated Statement of Comprehensive Income and was taken to an investment revaluation reserve account of the Group. The Group received a dividend income of HK\$14.3 million from C C Land for the period (2015: HK\$13.0 million).

Save as disclosed in this interim report, there were no other significant investments held, nor were there any material acquisitions, or disposals of subsidiaries, associates or joint ventures during the period under review. There was no present plan authorized by the Board for material investments or acquisitions of material capital assets as at the date of this interim report.

### Comments on Segment Information

Discussion and comments on the Group's segments, including the changes and development, were covered in the Business Review and Outlook sections of the Management Discussion and Analysis. The segment information and operating results were set out in note 3 to the Condensed Consolidated Financial Statements in this Interim Report.

Save as disclosed herein, there were no significant changes in the market conditions, new products or services introduced that had significantly affected the Group's performance.

### Significant Changes since 31 December 2015

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

### Review of Accounts

The audit committee of the Company has reviewed the 2016 Interim Report and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016. In addition, the audit committee has reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters.

### Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

## OPERATION REVIEW

### Human Resources Practices

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

There are effectively 30 work forces working for the Group as at 30 June 2016. The Group also provides other staff benefits including MPF, medical insurance and discretionary training subsidy. The Company also operates a discretionary share option scheme to motivate the performance of employees.



# Management Discussion and Analysis

## ADDITIONAL INFORMATION

### Compliance with Corporate Governance Code

The Company is committed to achieving and maintaining high standards of corporate governance. Throughout the six months ended 30 June 2016, the Company complied with all code provisions of Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange, except for deviation of code provision D.1.4 that the Company does not have formal letters of appointment for Directors setting out key terms and conditions of their appointment. The Company is of the view that the current arrangement is more appropriate and flexible, particularly in light of the current business activities and operational structure of the Company. All Directors have been serving the Company for long period of time and a clear understanding of terms and conditions of their appointment already exists between the Company and Directors. Additionally, each Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years pursuant to by-laws of the Company. The Board will review this arrangement in light of the evolving development of the Group’s business activities. In addition, the Company will continually review its corporate governance framework to ensure best corporate governance practices.

### Compliance with Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors and relevant employees. Following specific enquiry by the Company, each Director confirmed that throughout the six months ended 30 June 2016, they have complied with the required standards set out in the Model Code.

### Changes in Information of Directors

Mr. Lee Ka Sze, Carmelo was appointed as the Convenor and member of the Financial Reporting Review Panel for a term of three years commencing from 16 July 2016 to 15 July 2019. In addition, Mr. Lee ceased to be the member of the SFC Dual Filing Advisory Group of Securities and Futures Commission with effect from 31 March 2016. Other information of Mr. Lee is set out in Profiles of Directors and Senior Management of the 2015 Annual Report.

Save as disclosed herein, upon specific enquiry by the Company and following confirmations from Directors, there is no change in information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company’s last published annual report.

### Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2016.

## Disclosure of Interests

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2016, the interests and short positions of Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

#### (i) Long positions in shares of the Company:

| Name of Director     | Nature of Interest                                   | Number of Ordinary Shares Held | Percentage of Issued Share Capital |
|----------------------|--|--------------------------------|------------------------------------|
| Mr. Cheung Chung Kiu | Interest of controlled corporation ( <i>note 1</i> ) | 4,046,389,740                  | 43.49                              |
|                      | Beneficial Owner                                     | 53,320,000                     | 0.57                               |
| Mr. Zhang Qing Xin   | Beneficial Owner                                     | 13,600,000                     | 0.15                               |
| Mr. Lam Hiu Lo       | Beneficial Owner                                     | 41,800,000                     | 0.45                               |
| Mr. Liang Kang       | Beneficial Owner                                     | 30,000,000                     | 0.32                               |

#### (ii) Long positions in shares of Associated Corporations:

| Name of Director     | Name of Associated Corporation | Shares          | Nature of Interest                                   | Number of Shares Held | Percentage of Issued Share Capital of Associated Corporation |
|----------------------|--------------------------------|-----------------|--|-----------------------|--|
| Mr. Cheung Chung Kiu | Y. T. Realty Group Limited     | Ordinary shares | Interest of controlled corporation ( <i>note 2</i> ) | 273,000,000           | 34.14  |
| Mr. Ng Kwok Fu       | Y. T. Realty Group Limited     | Ordinary shares | Beneficial Owner                                     | 50,000                | 0.006  |
|                      |                                |                 | Interest of spouse                                   | 40,000                | 0.005  |

Notes:

- (1) Under Part XV of the SFO, Mr. Cheung Chung Kiu is deemed to be interested in 3,194,434,684 shares which are held by Chongqing Industrial Limited ("Chongqing") and 851,955,056 shares are held by Timmex Investment Limited ("Timmex").

Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have 35%, 30%, 5% and 30% equity interests in Chongqing respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects include Mr. Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.

Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu.

- (2) The 273,000,000 shares are held by Funrise Limited, a company indirectly controlled by Palin Holdings Limited, which in turn is wholly-owned by Mr. Cheung Chung Kiu. Palin Holdings Limited is the trustee for Palin Discretionary Trust, a family discretionary trust, the objects include Mr. Cheung Chung Kiu and his family.

Save as disclosed above, as at 30 June 2016, none of Directors or chief executive of the Company and their respective associates had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Disclosure of Interests

### SHARE OPTION SCHEME

The Company adopted a share option scheme on 21 May 2015 (the “Scheme”) which has a term of 10 years and will be expired on 20 May 2025. The purpose of the Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the employees and to serve such other purposes as the Board may approve from time to time. During the period under review, no share options were granted under the Scheme and there were no share options with respect to the Scheme and any other schemes of the Company outstanding at the beginning and at the end of the period under review.

### DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the following persons had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO; or as otherwise notified to the Company and the Stock Exchange:

#### Long positions in shares of the Company:

| Name                         | Notes | Capacity and Nature of Interest                        | Number of Ordinary Shares Held | Percentage of Issued Share Capital |
|------------------------------|-------|--|--------------------------------|------------------------------------|
| Timmex Investment Limited    | 1     | Beneficial Owner                                       | 851,955,056                    | 9.16                               |
| Chongqing Industrial Limited | 2     | Beneficial Owner                                       | 3,194,434,684                  | 34.33                              |
| Palin Holdings Limited       | 3     | Interest of controlled corporation                     | 3,194,434,684                  | 34.33                              |
| Mr. Cheung Chung Kiu         | 4     | Interest of controlled corporation<br>Beneficial Owner | 4,046,389,740<br>53,320,000    | 43.49<br>0.57                      |

Notes:

- (1) Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu.
- (2) The voting rights of these shares are exercisable by Chongqing which is controlled by Mr. Cheung Chung Kiu.
- (3) Under Part XV of the SFO, Palin Holdings Limited (“Palin”) is deemed to be interested in 3,194,434,684 shares held by Chongqing since Palin is entitled to control the exercise of 65% of the voting power at general meetings of Chongqing. Such interest in Chongqing is also held by Palin in the capacity as the trustee of Palin Discretionary Trust, a family discretionary trust, the objects include Mr. Cheung Chung Kiu and his family.
- (4) Out of 4,046,389,740 shares, 3,194,434,684 shares and 851,955,056 shares are held by Chongqing and Timmex respectively.

Save as disclosed above, as at 30 June 2016, the Company had not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company that were recorded in the register required to be kept by the Company under section 336 of the SFO; or as otherwise notified to the Company and the Stock Exchange.

### APPRECIATION

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

By order of the Board  
**Yuen Wing Shing**  
*Managing Director*

Hong Kong, 25 August 2016

## Consolidated Statement of Profit or Loss

For the six months ended 30 June 2016

|   | Notes | Six months ended 30 June        |   |
|---|-------|---------------------------------|---|
|   |       | 2016<br>(Unaudited)<br>HK\$'000 | 2015<br>(Unaudited)<br>HK\$'000<br>(Restated) |
| <b>REVENUE</b>  |       |                                 |   |
| Other income and gains  | 4     | 24,593                          | 27,496  |
| Administrative expenses   | 4     | 347                             | 89,559  |
| Other expenses  | 5     | (33,361)                        | (34,554)                                      |
| Finance costs   | 6     | (49,181)                        | —   |
| Share of profit of an associate   |       | (717)                           | (804)   |
|   |       | <u>57,567</u>                   | <u>107,287</u>                                |
| <b>PROFIT/(LOSS) BEFORE TAX</b>   | 7     | (752)                           | 188,984                                       |
| Income tax credit/(expense)   | 8     | 4                               | (15)  |
|   |       | <u>(748)</u>                    | <u>188,969</u>                                |
| <b>PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO<br/>EQUITY HOLDERS OF THE COMPANY</b>       |       |                                 |   |
| <b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO<br/>ORDINARY EQUITY HOLDERS OF THE COMPANY</b> |       |                                 |   |
| Basic and diluted   | 10    | <u>HK(0.01) cent</u>            | <u>HK2.03 cents</u>                           |

# Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

|   | <b>Six months ended 30 June</b> |             |
|---|---------------------------------|-------------|
|   | <b>2016</b>                     | 2015        |
|   | <b>(Unaudited)</b>              | (Unaudited) |
|   | <b>HK\$'000</b>                 | HK\$'000    |
| <b>PROFIT/(LOSS) FOR THE PERIOD</b>   | <b>(748)</b>                    | 188,969     |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>  |                                 |             |
| <i>Items that will be reclassified subsequently to profit or loss when specific conditions are met:</i> |                                 |             |
| Changes in fair value of an available-for-sale investment   | <b>(96,346)</b>                 | 140,614     |
| Share of other comprehensive income/(loss) of an associate  | <b>(32,070)</b>                 | 22,590      |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>   | <b>(128,416)</b>                | 163,204     |
| <b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>   | <b>(129,164)</b>                | 352,173     |

# Consolidated Statement of Financial Position

30 June 2016

|  | Notes | 30 June<br>2016<br>(Unaudited)<br>HK\$'000 | 31 December<br>2015<br>(Audited)<br>HK\$'000 |
|--|-------|--|--|
| <b>NON-CURRENT ASSETS</b>                                      |       |  |  |
| Property and equipment   | 11    | 31,656                                     | 32,678                                       |
| Investment properties  |       | 45,500                                     | 45,500                                       |
| Investment in an associate                                     | 12    | 1,246,811                                  | 2,258,714                                    |
| Loans receivable   |       | 3,996                                      | 4,996  |
| Available-for-sale investment                                  |       | 533,811                                    | 630,157                                      |
| Other assets   |       | 360  | 360  |
| Total non-current assets                                       |       | <u>1,862,134</u>                           | <u>2,972,405</u>                             |
| <b>CURRENT ASSETS</b>  |       |  |  |
| Listed equity investments at fair value through profit or loss |       | 138,462                                    | 72,440                                       |
| Loans receivables  |       | 51,000                                     | 81,000                                       |
| Prepayments, deposits and other receivables                    |       | 5,103                                      | 3,458  |
| Time deposits  |       | 4,661                                      | 30,200                                       |
| Cash and bank balances   |       | 886,750                                    | 8,611  |
| Total current assets   |       | <u>1,085,976</u>                           | <u>195,709</u>                               |
| <b>CURRENT LIABILITIES</b>                                     |       |  |  |
| Other payables and accruals                                    |       | 6,123                                      | 20,564                                       |
| Bank borrowings  | 13    | 15,000                                     | 44,500                                       |
| Deferred income  |       | 1,508                                      | 3,682  |
| Total current liabilities                                      |       | <u>22,631</u>                              | <u>68,746</u>                                |
| <b>NET CURRENT ASSETS</b>                                      |       | <u>1,063,345</u>                           | <u>126,963</u>                               |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |       | <u>2,925,479</u>                           | <u>3,099,368</u>                             |
| <b>NON-CURRENT LIABILITIES</b>                                 |       |  |  |
| Deferred tax liabilities                                       |       | 288  | 292  |
| Bank borrowing   | 13    | 15,000                                     | 22,500                                       |
| Total non-current liabilities                                  |       | <u>15,288</u>                              | <u>22,792</u>                                |
| Net assets   |       | <u>2,910,191</u>                           | <u>3,076,576</u>                             |
| <b>EQUITY</b>  |       |  |  |
| <b>Equity attributable to equity holders of the Company</b>    |       |  |  |
| Issued capital   |       | 93,053                                     | 93,053                                       |
| Reserves   |       | 2,817,138                                  | 2,983,523                                    |
| Total equity   |       | <u>2,910,191</u>                           | <u>3,076,576</u>                             |

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

|   | Attributable to equity holders of the Company |  |  |  |   |   |   |
|---|---|--|--|--|---|---|---|
|   | Issued capital<br>(Unaudited)<br>HK\$'000     | Share premium account<br>(Unaudited)<br>HK\$'000 | Contributed surplus<br>(Unaudited)<br>HK\$'000 | Available-for-sale investment revaluation reserve<br>(Unaudited)<br>HK\$'000 | Other reserves<br>(Unaudited)<br>HK\$'000 | Retained profits<br>(Unaudited)<br>HK\$'000 | Total equity<br>(Unaudited)<br>HK\$'000 |
| <b>At 1 January 2016</b>                                  | <b>93,053</b>                                 | <b>907,280*</b>                                  | <b>760,799*</b>                                | <b>278,623*</b>  | <b>29,141*</b>                            | <b>1,007,680*</b>                           | <b>3,076,576</b>                        |
| Loss for the period                                       | —   | —  | —  | —  | —   | (748)                                       | (748)                                   |
| Other comprehensive loss for the period:                  |   |  |  |  |   |   |   |
| Changes in fair value of an available-for-sale investment | —   | —  | —  | (96,346)   | —   | —   | (96,346)                                |
| Share of other comprehensive loss of an associate         | —   | —  | —  | —  | (32,070)                                  | —   | (32,070)                                |
| Total comprehensive loss for the period                   | —   | —  | —  | (96,346)   | (32,070)                                  | (748)                                       | (129,164)                               |
| 2015 final dividend paid (note 9)                         | —   | —  | —  | —  | —   | (37,221)                                    | (37,221)                                |
| <b>At 30 June 2016</b>                                    | <b>93,053</b>                                 | <b>907,280*</b>                                  | <b>760,799*</b>                                | <b>182,277*</b>  | <b>(2,929)*</b>                           | <b>969,711*</b>                             | <b>2,910,191</b>                        |
| At 1 January 2015   | 93,053  | 907,280  | 760,799  | —  | 4,873                                     | 873,767                                     | 2,639,772                               |
| Profit for the period                                     | —   | —  | —  | —  | —   | 188,969                                     | 188,969                                 |
| Other comprehensive income for the period:                |   |  |  |  |   |   |   |
| Changes in fair value of an available-for-sale investment | —   | —  | —  | 140,614  | —   | —   | 140,614                                 |
| Share of other comprehensive income of an associate       | —   | —  | —  | —  | 22,590                                    | —   | 22,590                                  |
| Total comprehensive income for the period                 | —   | —  | —  | 140,614  | 22,590                                    | 188,969                                     | 352,173                                 |
| 2014 final dividend paid (note 9)                         | —   | —  | —  | —  | —   | (27,916)                                    | (27,916)                                |
| At 30 June 2015   | 93,053  | 907,280  | 760,799  | 140,614  | 27,463                                    | 1,034,820                                   | 2,964,029                               |

\* These reserve accounts comprise the consolidated reserves of HK\$2,817,138,000 (31 December 2015: HK\$2,983,523,000) in the consolidated statement of financial position.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

|   | Six months ended 30 June        |   |
|---|---------------------------------|---|
|   | 2016<br>(Unaudited)<br>HK\$'000 | 2015<br>(Unaudited)<br>HK\$'000<br>(Restated) |
| <b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>  | <b>(110,147)</b>                | <b>(34,057)</b>                               |
| <b>INVESTING ACTIVITIES</b>   |                                 |   |
| Dividends received from an associate  | 1,037,400                       | 9,555   |
| Other cash flows arising from investing activities  | 304                             | (87)  |
| <b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>   | <b>1,037,704</b>                | <b>9,468</b>                                  |
| <b>FINANCING ACTIVITIES</b>   |                                 |   |
| New bank borrowing  | 5,000                           | —   |
| Repayment of bank borrowings  | (42,000)                        | (5,000)                                       |
| Dividends paid  | (37,221)                        | (27,916)                                      |
| Interest paid   | (736)                           | (752)   |
| <b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>  | <b>(74,957)</b>                 | <b>(33,668)</b>                               |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                 | <b>852,600</b>                  | <b>(58,257)</b>                               |
| Cash and cash equivalents at beginning of period  | 38,811                          | 86,842  |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>   | <b>891,411</b>                  | <b>28,585</b>                                 |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>                                    |                                 |   |
| Cash and bank balances  | 886,750                         | 9,085   |
| Non-pledged time deposits with original maturity of<br>less than three months when acquired | 4,661                           | 19,500  |
|   | <b>891,411</b>                  | <b>28,585</b>                                 |



# Notes to Condensed Consolidated Financial Statements

30 June 2016

## 1. CORPORATE AND GROUP INFORMATION

Yugang International Limited (the “**Company**”) is a company incorporated in Bermuda with limited liability and whose shares are publicly traded on the Stock Exchange. The principal activities of the Group are described in note 3 to the condensed consolidated financial statements.

The unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2016 were authorised for issue in accordance with a resolution of the board of directors on 25 August 2016.

## 2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosure requirements of Appendix 16 of the Listing Rules.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2015.

The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, except for the adoption of the following new amendments to HKFRSs for the first time for the current period’s unaudited interim condensed consolidated financial statements:

|   |  |
|---|--|
| Amendments to HKFRS 10 and HKAS 28 (2011)           | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | <i>Investment Entities: Applying the Consolidation Exception</i>                             |
| Amendments to HKFRS 11                              | <i>Accounting for Acquisitions of Interests in Joint Operations</i>                          |
| Amendments to HKAS 1                                | <i>Disclosure Initiative</i>   |
| Amendments to HKAS 16 and HKAS 38                   | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>                  |
| Amendments to HKAS 16 and HKAS 41                   | <i>Agriculture: Bearer Plants</i>  |
| Amendments to HKAS 27 (2011)                        | <i>Equity Method in Separate Financial Statements</i>  |
| <i>Annual Improvements 2012-2014 Cycle</i>          | Amendments to a number of HKFRSs   |

The adoption of these revised HKFRSs has had no significant financial effect on the unaudited interim condensed consolidated financial statements.

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

# Notes to Condensed Consolidated Financial Statements

30 June 2016

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable segments as follows:

- The treasury management segment which trades and holds debt and equity securities, earns interest and dividend income from the relevant securities investments, earns dividend income from an available-for sale investment and generates interest income from the provision of financing services.
- The property and infrastructure investment segment which consists of investment through Y. T. Realty Group Limited, an associate of the Group, in properties for rental income and/or capital appreciation potential; and in an associate which holds two tunnels in Hong Kong generating toll revenue.
- The "Others" segment which consists of the trading of scrap metals and other materials, property investment for rental income and/or capital appreciation potential, and other investments.

The management of the Company monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the unaudited interim condensed consolidated financial statements.

Information regarding the Group's reportable segments, together with their related revised comparative information, is presented below:

### For the six months ended 30 June 2016

|   | Treasury management<br>(Unaudited)<br>HK\$'000 | Property and infrastructure investment<br>(Unaudited)<br>HK\$'000 | Others<br>(Unaudited)<br>HK\$'000 | Reportable segments total<br>(Unaudited)<br>HK\$'000 | Adjustments<br>(Note)<br>(Unaudited)<br>HK\$'000 | Consolidated<br>(Unaudited)<br>HK\$'000 |
|---|--|---|-----------------------------------|--|--|---|
| <b>Segment revenue:</b>                     |  |   |                                   |  |  |   |
| Revenue                                     | 23,845   | 46,118  | 748                               | 70,711   | (46,118)   | 24,593                                  |
| Other income and gains                      | 347  | 102,170   | —                                 | 102,517  | (102,170)  | 347                                     |
| Total revenue and gains                     | <u>24,192</u>                                  | <u>148,288</u>  | <u>748</u>                        | <u>173,228</u>                                       | <u>(148,288)</u>                                 | <u>24,940</u>                           |
| <b>Segment profit/(loss) for the period</b> | <u>(51,804)</u>                                | <u>168,621</u>  | <u>(1,985)</u>                    | <u>114,832</u>                                       | <u>(111,054)</u>                                 | <u>3,778</u>                            |
| Corporate and unallocated expenses, net     |  |   |                                   |  |  | <u>(4,526)</u>                          |
| Loss for the period                         |  |   |                                   |  |  | <u>( 748)</u>                           |

## Notes to Condensed Consolidated Financial Statements

30 June 2016

3. OPERATING SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2015

|   | Treasury<br>management<br>(Unaudited)<br><i>HK\$'000</i><br><i>(Restated)</i> | Property and<br>infrastructure<br>investment<br>(Unaudited)<br><i>HK\$'000</i> | Others<br>(Unaudited)<br><i>HK\$'000</i> | Reportable<br>segments<br>total<br>(Unaudited)<br><i>HK\$'000</i><br><i>(Restated)</i> | Adjustments<br>(Note)<br>(Unaudited)<br><i>HK\$'000</i> | Consolidated<br>(Unaudited)<br><i>HK\$'000</i><br><i>(Restated)</i> |
|---|---|--|--|--|---|---|
| <b>Segment revenue:</b>                     |   |  |  |  |   |   |
| Revenue                                     | 26,748  | 107,728  | 748                                      | 135,224  | (107,728)   | 27,496  |
| Other income and gains                      | 89,559  | 118,102  | —  | 207,661  | (118,102)   | 89,559  |
| Total revenue and gains                     | <u>116,307</u>  | <u>225,830</u>   | <u>748</u>                               | <u>342,885</u>   | <u>(225,830)</u>  | <u>117,055</u>  |
| <b>Segment profit/(loss) for the period</b> | <u>89,280</u>   | <u>314,256</u>   | <u>(1,883)</u>                           | <u>401,653</u>   | <u>(206,969)</u>  | <u>194,684</u>  |
| Corporate and unallocated expenses, net     |   |  |  |  |   | <u>(5,715)</u>  |
| Profit for the period                       |   |  |  |  |   | <u>188,969</u>  |

Note: The activities of the property and infrastructure investment segment are carried on through an associate of the Group and therefore, the entire revenue and gains of this reportable segment and its profit for the period not attributable to the Group are adjusted to arrive at the Group's consolidated revenue and gains and consolidated profit/(loss) for the period.

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

The Group's revenue is derived solely from its operations in Hong Kong, and the non-current assets of the Group are substantially located in Hong Kong.

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the aggregate of the net gains or losses on disposal of listed equity investments at fair value through profit or loss, dividend income from listed equity investments at fair value through profit or loss and an available-for-sale investment, interest income from loans receivables, and gross rental income received and receivable from investment properties during the period.

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

|  | <b>Six months ended 30 June</b>                             |   |
|--|---|---|
|  | <b>2016</b><br><b>(Unaudited)</b><br><b><i>HK\$'000</i></b> | 2015<br>(Unaudited)<br><i>HK\$'000</i><br><i>(Restated)</i> |
| <b>Revenue</b>   |   |   |
| Gains on disposal of listed equity investments at fair value through profit or loss, net | —   | 13,301  |
| Dividend income from listed equity investments at fair value through profit or loss      | <b>3,160</b>  | 105   |
| Dividend income from an available-for-sale investment                                    | <b>14,322</b>   | 13,020  |
| Interest income from loans receivables   | <b>6,363</b>  | 322   |
| Gross rental income  | <b>748</b>  | 748   |
|  | <u><b>24,593</b></u>  | <u>27,496</u>   |

# Notes to Condensed Consolidated Financial Statements

30 June 2016

## 4. REVENUE, OTHER INCOME AND GAINS *(continued)*

|   | Six months ended 30 June        |  |
|---|---------------------------------|--|
|   | 2016<br>(Unaudited)<br>HK\$'000 | 2015<br>(Unaudited)<br>HK\$'000<br><i>(Restated)</i> |
| <b>Other income and gains</b>   |                                 |  |
| Interest income on bank deposits  | 347                             | 17   |
| Fair value gains on listed equity investments at fair value through profit or loss, net | —                               | 89,542   |
|   | <u>347</u>                      | <u>89,559</u>  |

## 5. OTHER EXPENSES

|  | Six months ended 30 June        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2016<br>(Unaudited)<br>HK\$'000 | 2015<br>(Unaudited)<br>HK\$'000 |
| Fair value losses on listed equity investments at fair value through profit or loss, net | 49,181                          | —                               |

## 6. FINANCE COSTS

|                             | Six months ended 30 June        |                                 |
|-----------------------------|---------------------------------|---------------------------------|
|                             | 2016<br>(Unaudited)<br>HK\$'000 | 2015<br>(Unaudited)<br>HK\$'000 |
| Interest on bank borrowings | 717                             | 804                             |

## 7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

|              | Six months ended 30 June        |                                 |
|--------------|---------------------------------|---------------------------------|
|              | 2016<br>(Unaudited)<br>HK\$'000 | 2015<br>(Unaudited)<br>HK\$'000 |
| Depreciation | 1,038                           | 1,030                           |

# Notes to Condensed Consolidated Financial Statements

30 June 2016

## 8. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2016 as the Group has available tax losses brought forward from prior years to offset the assessable profits arising in Hong Kong during the period (2015: Nil).

|   | <b>Six months ended 30 June</b> |             |
|---|---------------------------------|-------------|
|   | <b>2016</b>                     | 2015        |
|   | <b>(Unaudited)</b>              | (Unaudited) |
|   | <b>HK\$'000</b>                 | HK\$'000    |
| Deferred tax charge/(credit) for the period – Hong Kong | <b>(4)</b>                      | 15          |

There were no significant potential deferred tax liabilities for which provision has not been made.

The share of tax attributable to an associate amounting to HK\$2,459,000 (2015: HK\$4,710,000) is included in "Share of profit of an associate" in the consolidated statement of profit or loss.

## 9. DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

A final dividend of HK\$37,221,000 in respect of the year ended 31 December 2015 was paid during the six months ended 30 June 2016 (2015: HK\$27,916,000 in respect of the year ended 31 December 2014).

## 10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amount is based on the profit/(loss) for the period attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the period.

No adjustment has been made to the basic earnings/(loss) per share amount presented for the periods ended 30 June 2016 and 30 June 2015 as the Group had no potentially dilutive ordinary shares in issue during these periods.

The calculations of basic and diluted earnings/(loss) per share are based on:

|  | <b>Six months ended 30 June</b> |               |
|--|---------------------------------|---------------|
|  | <b>2016</b>                     | 2015          |
|  | <b>(Unaudited)</b>              | (Unaudited)   |
|  | <b>HK\$'000</b>                 | HK\$'000      |
| <b>Earnings/(loss)</b>   |                                 |               |
| Profit/(loss) attributable to ordinary equity holders of the Company used in the basic and diluted earnings/(loss) per share calculations  | <b>(748)</b>                    | 188,969       |
| <b>Shares</b>  |                                 |               |
| Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings/(loss) per share calculations | <b>9,305,276,756</b>            | 9,305,276,756 |

# Notes to Condensed Consolidated Financial Statements

30 June 2016

## 11. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2016, the Group incurred HK\$16,000 (2015: HK\$92,000) on the acquisition of items of property and equipment.

## 12. INVESTMENT IN AN ASSOCIATE

|                     | <b>30 June<br/>2016<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2015<br>(Audited)<br>HK\$'000 |
|---------------------|--|--|
| Share of net assets | <b>1,246,811</b>                                     | 2,258,714                                    |

Particulars of the associate are as follows:

| Name   | Particulars<br>of issued<br>shares held | Place of<br>incorporation<br>and business | Percentage of<br>ownership<br>interest<br>attributable<br>to the Group |
|--|---|---|--|
| Y. T. Realty Group Limited<br>("Y. T. Realty") | Ordinary shares                         | Bermuda/<br>Hong Kong                     | 34.14  |

Y. T. Realty is an investment holding company, incorporated in Bermuda and listed in Hong Kong, with its subsidiaries principally engaged in property investment and property trading. This associate has been accounted for using the equity method in these unaudited interim condensed consolidated financial statements.

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

### Consolidated Results

|  | <b>Six months ended 30 June</b>          |                                 |
|--|--|---------------------------------|
|  | <b>2016<br/>(Unaudited)<br/>HK\$'000</b> | 2015<br>(Unaudited)<br>HK\$'000 |
| Revenue  | <b>46,118</b>                            | 107,728                         |
| Other income                                   | <b>1,660</b>                             | 3,046                           |
| Total expenses                                 | <b>(11,159)</b>                          | (20,115)                        |
| Gain on disposal of subsidiaries               | <b>100,510</b>                           | —                               |
| Loss on deemed disposal of a joint venture     | <b>( 7,436)</b>                          | —                               |
| Changes in fair value of investment properties | <b>( 5,920)</b>                          | 115,056                         |
| Share of profit of an associate                | <b>51,296</b>                            | 131,324                         |
| Share of profit/(loss) of a joint venture      | <b>756</b>                               | ( 8,986)                        |
| Income tax expense                             | <b>( 7,204)</b>                          | (13,797)                        |
| Profit attributable to shareholders            | <b>168,621</b>                           | 314,256                         |

## Notes to Condensed Consolidated Financial Statements

30 June 2016

## 12. INVESTMENT IN AN ASSOCIATE (continued)

## Consolidated Financial Position

|                               | <b>30 June<br/>2016<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2015<br>(Audited)<br>HK\$'000 |
|-------------------------------|--|--|
| Non-current assets            |  |  |
| Investment properties         | <b>680,440</b>                                       | 4,099,900                                    |
| Investment in an associate    | <b>2,177,871</b>                                     | 2,236,514                                    |
| Investment in a joint venture | —  | 119,665                                      |
| Goodwill                      | <b>12,311</b>  | —  |
| Other non-current assets      | <b>1,896</b>   | 3,119  |
|                               | <b>2,872,518</b>                                     | 6,459,198                                    |
| Current assets                | <b>800,461</b>                                       | 424,741                                      |
| Current liabilities           | <b>( 16,822)</b>                                     | (183,530)                                    |
| Non-current liabilities       | <b>( 3,768)</b>                                      | (84,390)                                     |
| Net assets                    | <b>3,652,389</b>                                     | 6,616,019                                    |
| Market value of listed shares | <b>1,059,240</b>                                     | 1,610,700                                    |

## 13. BANK BORROWINGS

|   | 30 June 2016 (Unaudited)          |                               |               | 31 December 2015 (Audited)        |                                 |               |
|---|-----------------------------------|-------------------------------|---------------|-----------------------------------|---------------------------------|---------------|
|   | Effective<br>interest<br>rate (%) | Maturity                      | HK\$'000      | Effective<br>interest<br>rate (%) | Maturity                        | HK\$'000      |
| <b>Current</b>                            |                                   |                               |               |                                   |                                 |               |
| Bank borrowings –<br>secured              | 2.18                              | September 2016 -<br>June 2017 | 15,000        | 2.09 – 2.20                       | January 2016 -<br>December 2016 | 44,500        |
| <b>Non-current</b>                        |                                   |                               |               |                                   |                                 |               |
| Bank borrowing –<br>secured               | 2.18                              | September 2017 -<br>June 2018 | 15,000        | 2.15                              | March 2017 -<br>June 2018       | 22,500        |
|   |                                   |                               | <b>30,000</b> |                                   |                                 | <b>67,000</b> |
| Analysed into:                            |                                   |                               |               |                                   |                                 |               |
| Bank borrowings<br>repayable:             |                                   |                               |               |                                   |                                 |               |
| Within one year<br>or on demand           |                                   |                               | 15,000        |                                   |                                 | 44,500        |
| In the second year                        |                                   |                               | 15,000        |                                   |                                 | 15,000        |
| In the third to fifth<br>years, inclusive |                                   |                               | —             |                                   |                                 | 7,500         |
|   |                                   |                               | <b>30,000</b> |                                   |                                 | <b>67,000</b> |

# Notes to Condensed Consolidated Financial Statements

30 June 2016

## 13. BANK BORROWINGS (continued)

As at 30 June 2016, the Group had a term bank loan of HK\$30,000,000 (31 December 2015: HK\$37,000,000), of which HK\$15,000,000 (31 December 2015: HK\$22,500,000) was included in the non-current portion, was subject to a repayable on demand clause after 30 September 2017 (31 December 2015: repayable on demand clause after 31 January 2017).

## 14. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

|                 | <b>30 June<br/>2016<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2015<br>(Audited)<br>HK\$'000 |
|-----------------|--|--|
| Within one year | <u>127</u>   | <u>886</u>                                   |

### (b) As lessee

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|                 | <b>30 June<br/>2016<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2015<br>(Audited)<br>HK\$'000 |
|-----------------|--|--|
| Within one year | <u>181</u>   | <u>1,009</u>                                 |

## 15. COMMITMENTS

At the end of the reporting period, the Group did not have any significant commitments (31 December 2015: Nil).

## 16. BANKING FACILITIES

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

- pledges of the Group's investment properties and certain of its land and buildings with carrying values of HK\$45,500,000 and HK\$24,547,000, respectively (31 December 2015: HK\$45,500,000 and HK\$24,839,000, respectively); and
- corporate guarantees issued by the Company.

## 17. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

|   | <b>Six months ended 30 June</b>          |                                 |
|---|--|---------------------------------|
|   | <b>2016<br/>(Unaudited)<br/>HK\$'000</b> | 2015<br>(Unaudited)<br>HK\$'000 |
| Short term employee benefits                        | <b>7,632</b>                             | 8,332                           |
| Post-employment benefits                            | <b>36</b>                                | 45                              |
| Total compensation paid to key management personnel | <u><b>7,668</b></u>                      | <u>8,377</u>                    |



# Notes to Condensed Consolidated Financial Statements

30 June 2016

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

The fair value of the non-current portion of loans receivable and a bank borrowing have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturity. The Group's own non-performance risk for bank borrowing as at 30 June 2016 and 31 December 2015 was assessed to be insignificant.

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

### Fair value hierarchy

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

#### Assets measured at fair value:

|   | Fair value measurement using                                   |  |  | Total<br>HK\$'000 |
|---|--|--|--|-------------------|
|   | Quoted prices<br>in active<br>markets<br>(Level 1)<br>HK\$'000 | Significant<br>observable<br>inputs<br>(Level 2)<br>HK\$'000 | Significant<br>unobservable<br>inputs<br>(Level 3)<br>HK\$'000 |                   |
| <b>As at 30 June 2016 (Unaudited)</b>                             |  |  |  |                   |
| Available-for-sale investment                                     | 533,811  | —  | —  | 533,811           |
| Listed equity investments at fair<br>value through profit or loss | 138,462  | —  | —  | 138,462           |
|   | <b>672,273</b>   | <b>—</b>   | <b>—</b>   | <b>672,273</b>    |
| <b>As at 31 December 2015 (Audited)</b>                           |  |  |  |                   |
| Available-for-sale investment                                     | 630,157  | —  | —  | 630,157           |
| Listed equity investments at fair<br>value through profit or loss | 72,440   | —  | —  | 72,440            |
|   | <b>702,597</b>   | <b>—</b>   | <b>—</b>   | <b>702,597</b>    |

The Group did not have any financial liabilities measured at fair value as at 30 June 2016 and 31 December 2015.

During the six months ended 30 June 2016, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2015: Nil).

## 19. COMPARATIVE AMOUNTS

In prior periods, the Group had included the dividend income from its available-for-sale investments in other income and gains. In the Group's consolidated financial statements for the year ended 31 December 2015, the dividend income was recorded as revenue. In the opinion of the directors, this change in the classification of dividend income from available-for-sale investments resulted in a more appropriate presentation of the financial statements and provided more relevant information about the performance of the Group. Accordingly, comparative amounts have been restated to conform to the current period's presentation and disclosures.

## 20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved by the board of directors on 25 August 2016.

