

# YUGANG

## YUGANG INTERNATIONAL LIMITED

*Stock code: 00613*



Interim Report **2017**

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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

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26 Harbour Road  
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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 2017.

## RESULTS

The Group reported a profit attributable to equity holders of approximately HK\$36.0 million for the six months ended 30 June 2017, as compared with a loss attributable to equity holders of HK\$0.7 million for the corresponding period last year. During the period under review, the Group recorded an unrealized fair value gain of HK\$23.9 million on the listed equity investments at fair value through profit or loss (2016: fair value loss of HK\$49.2 million), which represented a significant increase of HK\$73.1 million from the last corresponding period. However, profit contributions from an associate of the Group decreased significantly for the period following the disposal of Hong Kong properties by the associate in February 2016, and distribution in specie of its equity interests in The Cross-Harbour (Holdings) Limited (“**Cross-Harbour**”) in November 2016. As a result, the Group recorded a share of profit of an associate of HK\$10.8 million for the six months ended 30 June 2017 (2016: HK\$57.6 million), representing a significant decrease of HK\$46.8 million from the last corresponding period.

## BUSINESS REVIEW

Hong Kong economy recorded a strong growth in the first half of 2017. It was attributable to improving export of goods, rising private consumption and low unemployment rate in Hong Kong. Notwithstanding the continual sluggishness in retail sales and the persistent decline in tourist spending, a signal of bottom-out was obvious during the period. Moreover, amelioration in global financial markets also resulted in stronger asset market performance in Hong Kong during the period, particularly the property markets.

In addition, the U.S. and Eurozone economies have been improving since the second half of 2016. President Trump’s proposal for tax reform, infrastructure spending plans and deregulation of financial markets all boosted the U.S. economic performance, reduced the unemployment rate and strengthened consumer confidence during the period. The Eurozone economy maintained its moderate pace of growth during the period, with key economic indices such as Purchasing Managers Index jumped to the year-high and the unemployment rate declined to the year-low. On the other hand, the economic growth of Mainland China continued its stabilizing trend since early 2017, with GDP growth accelerated to 6.9% over the first half of 2017. The major economic indicators such as Purchasing Managers Index, Producer Price Index, retail sales of consumer goods, and investment in fixed assets were continuously improving during the period, indicating the effectiveness of supply-side reform and de-leveraging.

Following the recovery of global financial markets during the first half of 2017, Hong Kong stock market rallied in a gradual pace. However, the Group’s treasury management business only recorded a moderate increase in unrealized fair value gain as the stock market boost was only restricted to few blue chip stocks during the period.

During the period under review, the Group diversified and changed its business segments into Treasury Management (including money lending), Property Investment and Property Leasing. The Group has no longer included infrastructure business segment since December 2016, details of which was set out in the Company’s latest published annual report.

### Property Investment Business

The Group’s Property Investment Business is carried on through Y. T. Realty Group Limited (“**Y. T. Realty**”), an associate of the Group and the shares of which are traded on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Y. T. Realty principally focuses on prime property investments in established overseas markets and currently holds two prime properties in London (the “**London Properties**”), namely a prime commercial property in 1 Chapel Place (the “**London Property**”) and a prime hotel property in 1 Harrow Place (the “**London Hotel**”).

During the period under review, the gross rental income of Y. T. Realty was HK\$21.4 million, representing a decrease of HK\$22.9 million from the last corresponding period. The London Property is situated in prime central London and the rental income of which was approximately HK\$10.8 million whereas the occupancy rate was maintained at 100% for the period. The London Hotel is located in central London which was leased to Travelodge Hotels Limited for a term of 35 years since 26 April 2007 and trading as Travelodge London Liverpool Street. The leasing demand for the London Hotel is generally stable and strong and the rental income was approximately HK\$10.5 million for the period.

As at the end of the reporting period, the investment properties of Y. T. Realty were revalued by independent professional valuers to an aggregate amount of approximately HK\$1,173.0 million. Given the diminishing effect of Brexit and the strong leasing demand for London Properties, Y. T. Realty recorded an overall fair value gain of approximately HK\$12.3 million on the investment properties for the period (2016: fair value loss of HK\$5.9 million). The profit after tax of Y. T. Realty was HK\$31.6 million for the period, representing a significant decrease of HK\$137.0 million from the last corresponding period. It was mainly attributable to an exceptional gain of HK\$100.5 million on disposal of a subsidiary, and the share of profit of an associate for HK\$51.3 million in the last corresponding period, which were not available for the period under review as the equity interests of an associate had been distributed in specie to its shareholders in November 2016.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Property Leasing Business

In addition to the Group's Property Investment Business which is carried on through Y. T. Realty and focusing on overseas prime properties, the Group also, in last year, expanded its Property Leasing Business by reclassifying its leasehold properties in Hong Kong to investment properties to earn rental income. In view of the low interest rate environment and buoyant property market in Hong Kong, the Group further acquired two commercial properties in Hong Kong (the "Commercial Properties") at an aggregate consideration of approximately HK\$280.7 million in May 2017. The Commercial Properties were fully leased out at an aggregate monthly rent of approximately HK\$660,000 (exclusive of government rent, rates, management fees and other charges). Detailed information of the transactions were set out in the Company's announcement dated 14 March 2017. As such, the aggregate rental income from Property Leasing Business increased to HK\$2.5 million for the period (2016: HK\$0.7 million), representing an increase of HK\$1.8 million from the last corresponding period.

As at the end of the reporting period, the carrying amount of investment properties under the Property Leasing Business segment were revalued to HK\$417.7 million by independent professional valuers and a fair value gain of HK\$10.4 million on the revaluation of investment properties was recorded for the period (2016: Nil).

## Treasury Management Business

During the period under review, the performance of Hong Kong stock market was strong and gradually rallied in a moderate pace. It was mainly attributable to the satisfactory performance of global equity market, particularly the U.S. stock market whereby Dow Jones Index reached the record-high. Besides, the launch of Shenzhen — Hong Kong Stock Connect in December 2016 and the cancellation of aggregate quota both attracted the continuous influx of China investment funds to Hong Kong stock market since January 2017, and pushing Hang Seng Index up to around 26,100 points in June this year.

Notwithstanding China funds mainly invested in a few blue chip stocks, the Group's Treasury Management Business could still be benefited from the rally of stock market and thereby recorded an unrealized fair value gain of HK\$23.9 million on the listed equity investments at fair value through profit or loss for the period (2016: fair value loss of HK\$49.2 million). Moreover, the Group received dividend income of HK\$17.1 million on the listed equity investments at fair value through profit or loss (2016: HK\$3.2 million).

In addition, the Group has expanded its money lending business and the exposure of loan receivables increased to HK\$54.0 million as at the end of the reporting period (31 December 2016: HK\$5.0 million). Subsequent to the end of the reporting period, the Group further granted a loan of HK\$50.0 million to an independent third party. Detailed information of the money lending transactions were set out in the Company's announcement published on 30 June 2017 and 31 July 2017.

## OUTLOOK

Look forward, the Group is cautiously optimistic about the global and Hong Kong economic outlook for 2017. The recovery of global economy, in particular, the U.S. and Eurozone has been maintained stable and the global financial markets improved gradually. Meanwhile, the economy of Mainland China is stabilizing upon the successful implementation of supply-side and state-owned enterprises reform. Together with the implementation of the belt and road initiative and the development of Guangdong-Hong Kong-Macau Greater Bay Area, it is expected that Hong Kong may be benefited from the increasing demand for its financial, professional and business services.

On the other hand, following the announcement of inclusion of China's A shares in MSCI as well as the launch of Bond Connect in June this year, the market expected a closer interconnection between the financial markets of Mainland China and Hong Kong and bringing more inflow of funds into Hong Kong stock market. If the prevailing market condition and the bullish sentiment do not change materially or the threat of geopolitical risks of North Korea does not materialize until the end of the year, the Group expects a possible improvement in the performance of its Treasury Management Business for the financial year of 2017 as compared to an unrealized fair value loss of HK\$35.4 million in the last financial year. Besides, the Group is looking forward to further expanding money lending business in future.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

The revenue of the Group for the six months ended 30 June 2017 was HK\$19.7 million, representing a decrease of HK\$4.9 million from the last corresponding period. The Group did not dispose of any listed equity investments during the period under review (2016: Nil). Dividend income from listed equity investment increased to HK\$17.1 million (2016: HK\$3.2 million), including dividend income of HK\$12.2 million from Cross-Harbour (2016: Nil). However, the Group did not receive any dividend income from an available-for-sale investment (2016: HK\$14.3 million). Interest income from the money lending business of the Group decreased to HK\$0.12 million (2016: HK\$6.4 million) due to the decrease in average balance of loan receivables during the period under review. Rental income of the Group for the period was HK\$2.5 million (2016: HK\$0.7 million).

### Other Comprehensive Income

The Group recorded other comprehensive loss of HK\$108.0 million for the six months ended 30 June 2017 (2016: HK\$128.4 million). It was mainly attributable to a fair value loss of HK\$132.0 million on an available-for-sale investment of the Group for the period (2016: HK\$96.3 million).

### Net Asset Value

The unaudited consolidated net asset value of the Group as at 30 June 2017 was HK\$2,700.8 million, representing a decrease of HK\$90.6 million from the end of last financial year. The unaudited consolidated net asset value per share as at 30 June 2017 was HK\$0.29.

### 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 2017, the Group's cash and bank balances and time deposits were HK\$176.8 million whilst the cash and cash equivalents and the listed equity investments in aggregate were HK\$1,201.3 million. The current ratio of the Group was 55.1 (31 December 2016: 35.8) which indicated a strong and healthy financial position of the Group.

The bank borrowing of the Group as at 30 June 2017 was HK\$15.0 million which was a term loan with maturity within 12 months. The bank borrowing was interest-bearing at a variable rate based on Hong Kong Interbank Offered Rate and denominated in Hong Kong dollars. As at 30 June 2017, the Group had available unutilized short-term banking facilities of approximately HK\$150.0 million.

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

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

### Gearing Ratio

As at 30 June 2017, 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 2016: inapplicable). Net debt includes bank borrowing, 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 2017.

### Charge on Group Assets

As at 30 June 2017, the Group pledged its investment properties with an aggregate carrying value of approximately HK\$115.3 million (31 December 2016: HK\$109.3 million) as securities for general banking facilities granted to the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group holds two significant investments which are investment in an associate and available-for-sale investment.

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\$532.1 million as at 30 June 2017 (31 December 2016: HK\$497.3 million). The profit after tax of Y. T. Realty for the six months ended 30 June 2017 was HK\$31.6 million (2016: HK\$168.6 million) and the Group's share of profit of an associate was HK\$10.8 million (2016: HK\$57.6 million). Detailed discussion about the performance of Y. T. Realty for the period is contained in the section of Business Review. Subject to Brexit negotiation, the Group expects a steady performance of Y. T. Realty and a stable stream of rental income in 2017.

The Group held an equity interest in C C Land Holdings Limited ("C C Land", the shares of which are listed on the main board of the Stock Exchange) which was classified as an available-for-sale investment. During the period, the Group exercised part of its subscription rights to subscribe for 31,800,000 shares of C C Land at an aggregate amount of HK\$63.6 million under the rights issue scheme, details of which were set out in the Company's announcement dated 12 April 2017. The carrying value of C C Land was stated at fair value of HK\$520.1 million as at 30 June 2017 (31 December 2016: HK\$588.5 million) and a fair value loss of HK\$132.0 million was recorded in a reserve account and recognized as other comprehensive loss in the Consolidated Statement of Comprehensive Income (2016: HK\$96.3 million). The Group did not receive any dividend income from C C Land during the period (2016: HK\$14.3 million).

As at 30 June 2017, the Group maintained a diversified portfolio of listed equity investments at fair value through profit or loss with a carrying value of HK\$1,024.5 million, representing an increase of HK\$27.6 million from the end of last financial year. As disclosed in the latest published annual report, the Group's portfolios in listed equity investments comprised of 19 listed companies including Cross-Harbour and China Resources Pharmaceutical Group Limited (stock code: 03320) ("China Resources Pharmaceutical") with a carrying value of HK\$620.2 million and HK\$243.8 million respectively as at 30 June 2017 and accounted for approximately 60.5% and 23.8% of the aggregate carrying value of the portfolios respectively. Due to the rally of Hong Kong stock market during the period, the Group's investments in Cross-Harbour and China Resources Pharmaceutical were satisfactory and recorded a fair value gain of HK\$26.5 million and HK\$25.0 million respectively for the period. Besides, the Group also received dividend income of HK\$12.2 million and HK\$2.3 million from Cross-Harbour and China Resources Pharmaceutical respectively. However, the Group is of the view that future performance of the Group's listed equity investments and available-for-sale investment depend, to a large extent, on the corresponding performance of the relevant financial markets which can be volatile.

On 31 May 2017, the Group completed the acquisition of two Commercial Properties by acquiring the entire issued shares of Supreme Access International Limited and August Estate Limited, in an aggregate consideration of HK\$280.7 million. Detail discussion and information of the transactions were set out in the section headed Property Leasing Business and note 14 to the Condensed Consolidated Financial Statements of this interim report.

Save as disclosed above, there was no other significant investment held, nor were there any material acquisitions or disposal of subsidiaries, associates or joint ventures during the period under review. There was no present plan authorized by the Board for material investments or acquisition 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 of the Group 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 2016

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

## Review of Accounts

The audit committee of the Company has reviewed the 2017 interim report and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017. In addition, the audit committee has also reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters.

## Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 29 work forces working for the Group as at 30 June 2017. 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.

## 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 2017, 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 letter 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 bye-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 2017, they have complied with the required standards set out in the Model Code.

### Changes in Information of Directors

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 2017.



## DISCLOSURE OF INTERESTS

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2017, the interests and short positions of Directors and chief executive of the Company in the shares of the Company (the “Shares”), underlying Shares or debentures of the Company or any of its associated corporations (the “Associated Corporation(s)”) (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long positions in Shares:

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 Corporation:

Name of Director	Name of Associated Corporation	Nature of Interest	Number of Ordinary Shares Held	Percentage of Issued Share Capital of Associated Corporation
Mr. Cheung Chung Kiu	Y. T. Realty Group Limited	Interest of controlled corporation	273,000,000	34.14
		( <i>note 2</i> )		
Mr. Ng Kwok Fu	Y. T. Realty Group Limited	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 2017, none of Directors or chief executive of the Company and their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its Associated Corporations 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 was, the Company or any of its subsidiaries or its holding company, 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, had any interests in or was granted any rights to subscribe for Shares, or had exercised any such rights.

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, the following persons had interests or short positions in the Shares or underlying Shares 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:

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 Beneficial Owner	4,046,389,740 53,320,000	43.49 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 2017, the Company has not been notified of any other relevant interests or short positions in the Shares or underlying Shares 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 2017

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
<b>REVENUE</b>	4	<b>19,698</b>	24,593
Other income and gains	4	<b>37,498</b>	347
Administrative expenses		<b>(27,188)</b>	(33,361)
Other expenses	5	—	(49,181)
Finance costs	6	<b>(464)</b>	(717)
Share of profit of an associate		<b>10,782</b>	57,567
<b>PROFIT/(LOSS) BEFORE TAX</b>	7	<b>40,326</b>	(752)
Income tax credit/(expense)	8	<b>(4,369)</b>	4
<b>PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>35,957</b>	(748)
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	10		
Basic and diluted		<b>HK0.39 cents</b>	HK(0.01) cent

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<u>35,957</u>	<u>(748)</u>
<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	(131,986)	(96,346)
Share of other comprehensive income/(loss) of an associate	<u>23,993</u>	<u>(32,070)</u>
<b>OTHER COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u>(107,993)</u>	<u>(128,416)</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	<u><u>(72,036)</u></u>	<u><u>(129,164)</u></u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property and equipment	11	754	934
Investment properties		417,700	125,600
Investment in an associate	12	532,068	497,293
Loan receivable		2,996	3,996
Available-for-sale investment		520,108	588,494
Other assets		360	360
Total non-current assets		<u>1,473,986</u>	<u>1,216,677</u>
<b>CURRENT ASSETS</b>			
Listed equity investments at fair value through profit or loss		1,024,546	996,865
Loans receivables		51,000	1,000
Prepayments, deposits and other receivables		6,144	4,281
Time deposits		145,933	553,119
Cash and bank balances		30,851	77,095
Total current assets		<u>1,258,474</u>	<u>1,632,360</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		7,733	30,642
Bank borrowing	13	15,000	15,000
Tax payable		110	—
Total current liabilities		<u>22,843</u>	<u>45,642</u>
<b>NET CURRENT ASSETS</b>		<u>1,235,631</u>	<u>1,586,718</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,709,617</u>	<u>2,803,395</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		8,847	4,478
Bank borrowing	13	—	7,500
Total non-current liabilities		<u>8,847</u>	<u>11,978</u>
Net assets		<u>2,700,770</u>	<u>2,791,417</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital		93,053	93,053
Reserves		2,607,717	2,698,364
Total equity		<u>2,700,770</u>	<u>2,791,417</u>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to equity holders of the Company							Total equity (Unaudited) HK\$'000
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Available-for-sale investment revaluation reserve (Unaudited) HK\$'000	Asset revaluation reserve <sup>#</sup> (Unaudited) HK\$'000	Other reserves (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	
<b>At 1 January 2017</b>	<b>93,053</b>	<b>907,280*</b>	<b>760,799*</b>	<b>236,960*</b>	<b>49,211*</b>	<b>(248,193)*</b>	<b>992,307*</b>	<b>2,791,417</b>
Profit for the period	—	—	—	—	—	—	35,957	35,957
Other comprehensive income/(loss) for the period:								
Changes in fair value of an available-for-sale investment	—	—	—	(131,986)	—	—	—	(131,986)
Share of other comprehensive income of an associate	—	—	—	—	—	23,993	—	23,993
<b>Total comprehensive income/(loss) for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(131,986)</b>	<b>—</b>	<b>23,993</b>	<b>35,957</b>	<b>(72,036)</b>
2016 final dividend paid (note 9)	—	—	—	—	—	—	(18,611)	(18,611)
<b>At 30 June 2017</b>	<b>93,053</b>	<b>907,280*</b>	<b>760,799*</b>	<b>104,974*</b>	<b>49,211*</b>	<b>(224,200)*</b>	<b>1,009,653*</b>	<b>2,700,770</b>
At 1 January 2016	93,053	907,280	760,799	278,623	—	29,141	1,007,680	3,076,576
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)
<b>Total comprehensive loss for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(96,346)</b>	<b>—</b>	<b>(32,070)</b>	<b>(748)</b>	<b>(129,164)</b>
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>—</b>	<b>(2,929)</b>	<b>969,711</b>	<b>2,910,191</b>

\* These reserve accounts comprise the consolidated reserves of HK\$2,607,717,000 (31 December 2016: HK\$2,698,364,000) in the consolidated statement of financial position.

# The asset revaluation reserve arose from changes in use from owner-occupied properties to investment properties carried at fair value during the year ended 31 December 2016.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(84,925)</b>	<b>(110,147)</b>
<b>INVESTING ACTIVITIES</b>		
Subscription for shares of an available-for-sale investment	(63,600)	—
Acquisitions of subsidiaries that are not businesses	(281,027)	—
Dividends received from an associate	—	1,037,400
Other cash flows arising from investing activities	2,696	304
<b>NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>	<b>(341,931)</b>	<b>1,037,704</b>
<b>FINANCING ACTIVITIES</b>		
New bank borrowing	—	5,000
Repayment of bank borrowings	(7,500)	(42,000)
Dividends paid	(18,611)	(37,221)
Interest paid	(463)	(736)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(26,574)</b>	<b>(74,957)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(453,430)</b>	<b>852,600</b>
Cash and cash equivalents at beginning of period	630,214	38,811
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>176,784</b>	<b>891,411</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	30,851	886,750
Non-pledged time deposits with original maturity of less than three months when acquired	145,933	4,661
	<b>176,784</b>	<b>891,411</b>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

## 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 2017 were authorised for issue in accordance with a resolution of the board of directors on 25 August 2017.

## 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 2016.

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 2016, 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 HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>Disclosure of Interest in Other Entities</i>

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 2017

## 3. OPERATING SEGMENT INFORMATION

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

- (a) The treasury management segment which trades and holds debt and equity securities, earns interest and dividend income from the relevant securities investments, earns dividend income from an available-for-sale investment and generates interest income from money lending activities.
- (b) The property investment segment (formerly known as property and infrastructure investment segment in the last corresponding period) consists of investment through Y. T. Realty Group Limited (“Y. T. Realty”), an associate of the Group, in properties for rental income and/or capital appreciation potential. As disclosed in the Group’s annual consolidated financial statements for the year ended 31 December 2016, the Group has ceased its infrastructure investment segment since December 2016.
- (c) The property leasing segment which consists of leasing of properties directly owned by the Group for rental income and/or capital appreciation potential.

As the Group has reclassified “other” segment into “property leasing” segment with a brief explanation and restatement of prior year’s comparative amounts in the Group’s annual consolidated financial statements for the year ended 31 December 2016, the comparative amounts for the six months ended 30 June 2016 have been restated accordingly to conform with the current period’s presentation and disclosures.

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 restated comparative information, is presented below:

### For the six months ended 30 June 2017

	Treasury management (Unaudited) HK\$’000	Property investment (Unaudited) HK\$’000	Property leasing (Unaudited) HK\$’000	Reportable segments total (Unaudited) HK\$’000	Adjustments (Note) (Unaudited) HK\$’000	Consolidated (Unaudited) HK\$’000
<b>Segment revenue:</b>						
Revenue	17,233	21,426	2,465	41,124	(21,426)	19,698
Other income and gains	27,073	13,357	10,425	50,855	(13,357)	37,498
Total revenue and gains	<u>44,306</u>	<u>34,783</u>	<u>12,890</u>	<u>91,979</u>	<u>(34,783)</u>	<u>57,196</u>
<b>Segment profit for the period</b>	<u>19,462</u>	<u>31,584</u>	<u>10,506</u>	<u>61,552</u>	<u>(20,802)</u>	<u>40,750</u>
Corporate and unallocated expenses, net						(4,793)
Profit for the period						<u>35,957</u>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

## 3. OPERATING SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2016

	Treasury management (Unaudited) HK\$'000	Property and infrastructure investment (Unaudited) HK\$'000	Property leasing (Unaudited) HK\$'000 (Restated)	Reportable segments total (Unaudited) HK\$'000 (Restated)	Adjustments (Note) (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000 (Restated)
<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>30</u>	<u>116,847</u>	<u>(111,054)</u>	<u>5,793</u>
Corporate and unallocated expenses, net						<u>(6,541)</u>
Loss for the period						<u>(748)</u>

Note: The activities of the property investment segment (formerly known as property and infrastructure investment segment in the last corresponding period) 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.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

**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>2017</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>2016</b> <b>(Unaudited)</b> <b>HK\$'000</b>
<b>Revenue</b>		
Dividend income from listed equity investments at fair value through profit or loss	17,114	3,160
Dividend income from an available-for-sale investment	—	14,322
Interest income from loans receivables	119	6,363
Gross rental income	2,465	748
	<u>19,698</u>	<u>24,593</u>
<b>Other income and gains</b>		
Interest income on bank deposits	742	347
Fair value gains on listed equity investments at fair value through profit or loss, net	23,897	—
Gain on disposal of rights to subscribe shares of an available-for-sale investment	2,432	—
Gain on disposal of items of property and equipment	10	—
Fair value gains on investment properties	10,394	—
Others	23	—
	<u>37,498</u>	<u>347</u>

**5. OTHER EXPENSES**

	<b>Six months ended 30 June</b>	
	<b>2017</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>2016</b> <b>(Unaudited)</b> <b>HK\$'000</b>
Fair value losses on listed equity investments at fair value through profit or loss, net	—	49,181
	<u>—</u>	<u>49,181</u>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

## 6. FINANCE COSTS

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Interest on bank borrowings	464	717

## 7. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Depreciation	454	1,038

## 8. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2017 as the Group has available tax losses brought forward from prior years to offset the assessable profits arising in Hong Kong during the period (2016: Nil).

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Deferred tax charge/(credit) for the period – Hong Kong	4,369	(4)

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

The share of tax credit attributable to an associate amounting to HK\$385,000 (2016: tax charge of HK\$2,459,000) 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 2017 (2016: Nil).

A final dividend of HK\$18,611,000 in respect of the year ended 31 December 2016 was paid during the six months ended 30 June 2017 (2016: HK\$37,221,000 in respect of the year ended 31 December 2015).

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

## 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 2017 and 30 June 2016 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>2017</b>	2016
	<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>35,957</b>	(748)
	<u><u>35,957</u></u>	<u><u>(748)</u></u>
	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
<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
	<u><u>9,305,276,756</u></u>	<u><u>9,305,276,756</u></u>

## 11. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2017, the Group incurred HK\$417,000 (2016: HK\$16,000) on the acquisition of items of property and equipment.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

## 12. INVESTMENT IN AN ASSOCIATE

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Share of net assets	<u>532,068</u>	<u>497,293</u>

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation and business	Percentage of ownership interest attributable to the Group
Y. T. Realty Group Limited (“Y. T. Realty”)	Ordinary shares	Bermuda/ Hong Kong	34.14

Y. T. Realty is an investment holding company, incorporated in Bermuda and listed in Hong Kong, with its subsidiaries 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 Y. T. Realty are as follows:

### Consolidated Results

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Revenue	21,426	46,118
Other income	1,087	1,660
Total expenses	(4,326)	(11,159)
Gain on disposal of subsidiaries	—	100,510
Loss on deemed disposal of a joint venture	—	(7,436)
Changes in fair value of investment properties	12,270	(5,920)
Share of profit of an associate	—	51,296
Share of profit of a joint venture	—	756
Income tax expense/(credit)	1,127	(7,204)
Profit attributable to shareholders	<u>31,584</u>	168,621
Other comprehensive income/(loss)	<u>70,275</u>	(93,933)
Total comprehensive income	<u>101,859</u>	<u>74,688</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

## 12. INVESTMENT IN AN ASSOCIATE (continued)

## Consolidated Financial Position

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Non-current assets		
Investment properties	1,173,015	1,093,054
Other non-current assets	18,525	1,665
	<u>1,191,540</u>	<u>1,094,719</u>
Current assets	397,454	392,705
Current liabilities	(26,537)	(27,026)
Non-current liabilities	(3,968)	(3,768)
	<u>1,558,489</u>	<u>1,456,630</u>
Net assets		
	<u>644,280</u>	<u>786,240</u>
Market value of listed shares		
	<u>644,280</u>	<u>786,240</u>

## 13. BANK BORROWING

	30 June 2017 (Unaudited)			31 December 2016 (Audited)		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>						
Bank borrowing – secured	2.27	September 2017 – June 2018	15,000	2.65	March 2017 – December 2017	15,000
<b>Non-current</b>						
Bank borrowing – secured			–	2.65	March 2018 – June 2018	7,500
			<u>15,000</u>			<u>22,500</u>
Analysed into:						
Bank borrowing repayable:						
Within one year or on demand			15,000			15,000
In the second year			–			7,500
			<u>15,000</u>			<u>22,500</u>

At 31 December 2016, the Group had a term bank loan of HK\$22,500,000, of which HK\$7,500,000 was included in the non-current portion, was subject to a repayable on demand clause after 31 January 2018. As at 30 June 2017, the Group's term bank loan of HK\$15,000,000 which was subject to a repayable on demand clause after 31 January 2018.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

## 14. ACQUISITIONS OF SUBSIDIARIES THAT ARE NOT BUSINESSES

On 14 March 2017, the Group entered into a sale and purchase agreement with an independent third party to acquire all the issued shares of Supreme Access International Limited (“**Supreme Access**”) and its sole subsidiary, Sharp Light International Limited, (collectively “**Supreme Access Group**”) together with the shareholder’s loan owed by Supreme Access Group to its then shareholder, at the cash consideration of HK\$136,100,000. On the same day, the Group entered into another sale and purchase agreement with an independent third party to acquire all the issued shares of August Estate Limited (“**August Estate**”) at the cash consideration of HK\$144,600,000.

Supreme Access Group and August Estate principally engaged in property investment in Hong Kong. Up to the date of acquisitions, Supreme Access Group and August Estate did not carry out any significant business transaction except each held a property in Hong Kong.

The above acquisitions are accounted for by the Group as acquisitions of assets as the entities acquired by the Group do not constitute a business.

The net assets acquired by the Group in the above transactions are as follows:

	Supreme Access Group (Unaudited) HK\$ '000	August Estate (Unaudited) HK\$ '000	Total (Unaudited) HK\$ '000
Net assets acquired:			
Investment properties	136,746	144,097	280,843
Property and equipment	50	—	50
Prepayments, deposits and other receivables	252	1,176	1,428
Bank balances	1	1	2
Other payables and accruals	(839)	(674)	(1,513)
Tax payable	(110)	—	(110)
	<u>136,100</u>	<u>144,600</u>	<u>280,700</u>
Satisfied by cash	<u>136,100</u>	<u>144,600</u>	<u>280,700</u>

The Group incurred transaction costs of HK\$329,000 for these acquisitions. These transaction costs have been capitalised and are included in the initial acquisition cost of investment properties in the consolidated statement of financial position.

An analysis of cash flows in respect of the acquisitions of Supreme Access Group and August Estate are as follows:

	Supreme Access Group (Unaudited) HK\$ '000	August Estate (Unaudited) HK\$ '000	Total (Unaudited) HK\$ '000
Cash consideration	(136,100)	(144,600)	(280,700)
Transaction costs directly attributable to the acquisitions	(164)	(165)	(329)
Bank balances acquired	<u>1</u>	<u>1</u>	<u>2</u>
Net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries included in cash flows from investing activities	<u>(136,263)</u>	<u>(144,764)</u>	<u>(281,027)</u>



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

## 15. 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 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
Within one year	11,609	3,664
In the second to fifth years, inclusive	<u>8,474</u>	<u>3,681</u>
	<b><u>20,083</u></b>	<b><u>7,345</u></b>

## (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 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
Within one year	1,822	1,821
In the second to fifth years, inclusive	<u>1,927</u>	<u>2,817</u>
	<b><u>3,749</u></b>	<b><u>4,638</u></b>

## 16. COMMITMENT

In addition to the operating lease commitments detailed in note 15 above, the Group had the following capital commitment at the end of the reporting period:

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
Contracted, but not provided for: Investment properties	<u>3,517</u>	<u>—</u>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

## 17. BANKING FACILITIES

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

- (a) pledges of certain of the Group's investment properties with an aggregate carrying value of HK\$115,300,000 (31 December 2016: HK\$109,300,000); and
- (b) corporate guarantees issued by the Company.

## 18. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Short term employee benefits	7,385	7,632
Post-employment benefits	35	36
	<hr/>	<hr/>
Total compensation paid to key management personnel	<b>7,420</b>	7,668
	<hr/> <hr/>	<hr/> <hr/>

## 19. 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 2017 and 31 December 2016 was assessed to be insignificant.

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

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

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

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

**Assets measured at fair value:**

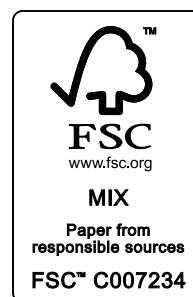
	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
<b>As at 30 June 2017 (Unaudited)</b>				
Available-for-sale investment	520,108	—	—	520,108
Listed equity investments at fair value through profit or loss	1,024,546	—	—	1,024,546
	<u>1,544,654</u>	<u>—</u>	<u>—</u>	<u>1,544,654</u>
<b>As at 31 December 2016 (Audited)</b>				
Available-for-sale investment	588,494	—	—	588,494
Listed equity investments at fair value through profit or loss	996,865	—	—	996,865
	<u>1,585,359</u>	<u>—</u>	<u>—</u>	<u>1,585,359</u>

The Group did not have any financial liabilities measured at fair value as at 30 June 2017 and 31 December 2016.

During the six months ended 30 June 2017, 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 (2016: Nil).

## 20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved by the board of directors on 25 August 2017.



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