

vanke 万科

Vanke Property (Overseas) Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01036)

2016

Interim Report

For the six months ended 30 June 2016



This interim report is printed on environmentally friendly paper

Corporate Information

BOARD OF DIRECTORS

Executive Directors

ZHANG Xu

QUE Dong Wu

Non-Executive Director

CHAN Chi Yu

Independent Non-Executive Directors

CHAN Wai Hei, William

LAW Chi Yin, Cynthia

SHIUM Soon Kong

AUDIT COMMITTEE

CHAN Wai Hei, William (*Chairman*)

CHAN Chi Yu

LAW Chi Yin, Cynthia

REMUNERATION COMMITTEE

SHIUM Soon Kong (*Chairman*)

QUE Dong Wu

CHAN Wai Hei, William

NOMINATION COMMITTEE

LAW Chi Yin, Cynthia (*Chairman*)

ZHANG Xu

SHIUM Soon Kong

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

LUK Chi Chung, Peter

AUDITOR

KPMG

LEGAL ADVISORS TO THE COMPANY

Reed Smith Richards Butler (*as to Hong Kong law*)

Maples and Calder (*as to Cayman Islands law*)

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

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Grand Cayman KY1-1104

Cayman Islands

PRINCIPAL PLACE OF BUSINESS

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183 Queen's Road East

Wan Chai

Hong Kong

Management Discussion and Analysis

BUSINESS REVIEW

The Group's revenue is derived from the leasing of units and car parking spaces in Regent Centre. Revenue for the six months ended 30 June 2016 (the "Period") was HK\$45.4 million (six months ended 30 June 2015: HK\$44.5 million), representing an increase of 2%. The increase was mainly due to an increase in passing rent for the units in Regent Centre during the Period.

The Group's investment in Regent Centre was fair valued at HK\$1,655.2 million as at 30 June 2016 (31 December 2015: HK\$1,619.9 million), representing an increase of 2%. There has been no change in the valuation methodology of the Group's investment properties, including the capitalisation rate. The higher valuation resulted in a fair value gain of HK\$35.3 million in the first half of the year (six months ended 30 June 2015: HK\$67.7 million).

Excluding the change in fair value of Regent Centre, the Group's underlying profit for the Period was HK\$26.7 million (six months ended 30 June 2015: HK\$17.4 million), representing an increase of 53%. The increase was mainly due to savings in finance costs and compensation receivable from tenants for early lease termination.

Rental and property management

The Group's investment properties comprise various portions of Regent Centre (the "Property"), which is located at 63 Wo Yi Hop Road and 70 Ta Chuen Ping Street, Kwai Chung, New Territories, Hong Kong. The Group owns a total gross floor area of approximately 657,000 square feet, representing 64% of the total gross floor area in Regent Centre.

During the Period, the Group renewed a majority of the leases at a positive rental reversion. Occupancy of the Property was maintained at a high level of 93% as at 30 June 2016 (31 December 2015: 93%) against an increase in passing rent to HK\$9.4 per square foot as at 30 June 2016 (31 December 2015: HK\$9.2 per square foot). Apart from monthly rent, the tenants are responsible for payment of property management fee to the landlord, whose income has been accounted for as part of the revenue of the Group. Total revenue from the leasing of units and car parking spaces in Regent Centre was HK\$45.4 million (six months ended 30 June 2015: HK\$44.5 million).

Gross profit from operation for the Period was HK\$34.6 million (six months ended 30 June 2015: HK\$34.5 million) at an increased cost-to-revenue ratio to 23.8% (six months ended 30 June 2015: 22.4%). The increase in cost-to-revenue ratio was mainly attributed to an increase in repair and maintenance expenses on the landlord's fixtures and fittings provided to the tenants in Regent Centre. The Group is taking initiatives to protect the environment and improve customer satisfaction by adopting a program to upgrade the existing air conditioning system in Regent Centre to new ones using environmentally friendly refrigerant, which are more energy efficient and deliver a better cooling performance. The program is expected to commence in the fourth quarter of 2016 with an estimated capital outlay of approximately HK\$35.0 million.

Segment profit after deducting property management fees, carpark management expenses, leasing commission and other operating expenses but before change in fair value of the Property amounted to HK\$36.5 million for the Period (six months ended 30 June 2015: HK\$33.1 million). The increase was due to an increase in gross profit from operation and compensation receivable from tenants for early lease termination.

Management Discussion and Analysis *(continued)*

BUSINESS REVIEW *(continued)*

Property development

(a) *TW6 Project*

The Group's property under development are represented by investment in Ultimate Vantage Limited ("Ultimate Vantage"), a 20% associate of the Group. Ultimate Vantage is a special purpose vehicle established for the development of the West Rail Tsuen Wan West Station TW6 Property Development Project (the "TW6 Project") in January 2013. The TW6 Project involves, among other things, construction of two high-rise residential buildings offering a total of 983 units with a maximum developable gross floor area of approximately 675,000 square feet. Barring any unforeseen circumstances, the project is expected to be launched to the market for presale in the fourth quarter of 2016. As at the date hereof, development of the TW6 project has proceeded to the superstructure stage and is scheduled for completion in 2018.

The Group's total investment in the TW6 Project amounted to HK\$467.2 million as at 30 June 2016 (31 December 2015: HK\$459.0 million). The increase was mainly due to net advances of HK\$8.3 million for financing the property development expenditure in the TW6 Project. The Group is expected to make further advances to Ultimate Vantage to fund for sales and marketing expenses and other expenditure which are not covered by the permitted use of the banking facilities currently granted for the TW6 Project (the "TW6 Banking Facilities"), as the project proceeds to the presale stage in the second half of 2016.

There is no profit contribution from the TW6 Project for the time being. Segment loss, as a result of the Group's share of loss in Ultimate Vantage, was negligible in both periods.

(b) *Property acquisition*

The Group has remaining rights issue proceeds of HK\$709.2 million in the bank accounts of the Group, pending application for property acquisitions. During the Period, the Group pursued a strategy to acquire property projects in Hong Kong through public auction or tender. So far, the Group has participated in four public tenders from the Hong Kong Government, being (i) Tai Po Town Lot No. 227 on a sole basis in May 2016, (ii) Tai Po Town Lot No. 228 on a sole basis in July 2016, (iii) Yau Tong Inland Lot No. 44 on a joint venture basis in July 2016, and (iv) Sha Tin Town Lot No. 609 on a joint venture basis in August 2016. The Group was outbid in all four tenders and will consider all possibilities, including continue participating in public auction or tender, to enlarge its property portfolio.

Head office and corporate expenses

Head office and corporate expenses, net of unallocated income, were HK\$5.1 million during the Period. (six months ended 30 June 2015: HK\$4.7 million). The increase was mainly due to an increase in headcount of the Group.

Finance costs, net

Net proceeds generated from the rights issue have been placed with banks to earn interest income since August 2015. Finance income for the Period amounted to HK\$0.97 million (six months ended 30 June 2015: nil).

The Group applied part of the rights issue proceeds to fully repay the Group's bank borrowings on 28 December 2015. No new banking facilities have been arranged since then. As a result, the Group's finance cost was negligible during the Period (six months ended 30 June 2015: HK\$6.3 million).

Management Discussion and Analysis *(continued)*

FINANCIAL REVIEW

Rights issue

In August 2015, the Group raised net proceeds of HK\$1,032.2 million through a rights issue on the basis of one rights share for every two existing shares of the Company held on 13 July 2015 at the subscription price of HK\$8.04 per rights share (the "Rights Issue").

The net proceeds from the Rights Issue of HK\$1,032.2 million was originally intended to be applied for acquiring a property under development located in the Wan Chai district of Hong Kong from China Vanke Co., Ltd. (the "Potential Acquisition"). After amicable negotiations, the Company and China Vanke Co., Ltd. did not reach an agreement to the proposed terms and conditions of the Potential Acquisition. As a result, the Board has resolved not to proceed with the Potential Acquisition and to apply the remaining net proceeds of the Rights Issue, being HK\$709.2 million after applying HK\$323.0 million of the total net proceeds for repayment of the outstanding bank loan on 28 December 2015, for financing other property acquisition opportunities.

On 9 August 2016, the Board, having considered the funding needs of the Group and other factors, resolved to change the use of part of the remaining rights issue proceeds as follows:

- (a) approximately HK\$65.0 million for funding sales and marketing expenses and other expenditure for the TW6 Project, which are not covered by the permitted use of the TW6 Banking Facilities;
- (b) approximately HK\$35.0 million for upgrading the air conditioning system in Regent Centre; and
- (c) the remaining balance of approximately HK\$609.2 million for acquisition of land or property projects.

For details, please refer to the Company's announcement dated 9 August 2016 on the change in use of net proceeds from Rights Issue.

Liquidity and financial resources

Equity attributable to shareholders of the Company amounted to HK\$2,788.8 million as at 30 June 2016 (31 December 2015: HK\$2,738.5 million). The increase was due to the profit attributable to the shareholders of the Company for the Period of HK\$62.0 million less payment of 2015 final dividend of HK\$11.7 million.

The Group had no interest-bearing debts and undrawn banking facilities as at 30 June 2016 (31 December 2015: nil). The Group's bank balances and cash amounted to HK\$724.5 million as at 30 June 2016 (31 December 2015: HK\$715.7 million), of which HK\$709.2 million (31 December 2015: HK\$709.2 million) was attributable to remaining proceeds from the Rights Issue.

On 9 August 2016, the Board resolved to reallocate part of the remaining proceeds from the Rights Issue of HK\$100.0 million for funding future contributions for the TW6 Project and the expenditure to be incurred in upgrading the air conditioning system in Regent Centre. The Group's investment properties, which are debt free for the time being, can be leveraged into additional cash resources as and when required.

Treasury policies

The Group operates in Hong Kong and all its assets and liabilities are denominated in Hong Kong dollar. As a result, it has no exposure to foreign exchange rate fluctuation.

The Group has no exposure to interest rate risk, as it does not have any interest-bearing debts for the time being.

Management Discussion and Analysis *(continued)*

FINANCIAL REVIEW *(continued)*

Capital commitments

The Group had no significant capital commitments as at 30 June 2016 (31 December 2015: nil).

Contingent liabilities and financial guarantees

The Group had a contingent liability of HK\$960.0 million as at 30 June 2016 (31 December 2015: HK\$960.0 million) in respect of a corporate guarantee given in relation to the TW6 Banking Facilities. The corporate guarantee was given on a several basis and in proportion to the Group's shareholding interest of 20% in Ultimate Vantage.

Out of the total TW6 Banking Facilities of HK\$4,800.0 million, HK\$1,944.3 million (31 December 2015: HK\$1,822.3 million) was utilised by Ultimate Vantage as at 30 June 2016.

Pledge of assets

The all-monies mortgage created over the Group's investment properties together with other loan collaterals were discharged in full on 16 March 2016, following full repayment of the then outstanding bank loan on 28 December 2015.

There was no pledge on the Group's assets as at 30 June 2016.

Significant investments held, material acquisitions and disposals of subsidiaries and associates

There were no other significant investments held, material acquisitions or disposals of subsidiaries and associates during the Period.

EMPLOYEES AND REMUNERATION POLICY

During the Period, Vanke Property (Hong Kong) Company Limited ("Vanke HK") increased the property development capabilities of the Group by transferring two of its property professionals from Vanke HK to the Group. As a result, the Group had six employees as at 30 June 2016 (31 December 2015: four). Total staff costs (including Directors' emoluments) amounted to HK\$3.3 million in the Period (six months ended 30 June 2015: HK\$3.0 million).

Vanke HK provides administrative and management support to the Group on a cost basis. Total fee payable to Vanke HK amounted to HK\$681,000 during the Period (six months ended 30 June 2015: HK\$875,000).

The Executive Directors periodically review the adequacy of the staffing of the Group by reference to the Group's business requirements. Should there be employees recruited under the Group, their remuneration and benefit packages will be structured on market terms with regard to individual responsibility and performance. All eligible employees in Hong Kong are enrolled to a defined contribution mandatory provident fund scheme. Other employment benefits are awarded at the discretion of the Group.

Management Discussion and Analysis *(continued)*

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (six months ended 30 June 2015: nil).

OUTLOOK

It is expected that the Hong Kong and global economy will remain full of uncertainties, especially after UK's decision to leave the European Union in June 2016. The Hong Kong economy is expected to further weaken, as a result of the slowing Mainland China economy, the tightening of the US Federal Reserve's policy and a strengthening Hong Kong Dollar. With these in mind, the Group has been working in full collaboration with the estate and property managers in Regent Centre to increase tenants' satisfaction. A customer satisfaction survey was carried out in April 2016 to measure the level of satisfaction of the performance of the landlord and the managers in Regent Centre and to gauge the tenants' opinion on the condition of the building. These have resulted in effective measures being undertaken to raise property management standards. Further, the Group is going to embark a program to upgrade the existing air conditioning system in Regent Centre to new ones using environmentally friendly refrigerant. These asset enhancement initiatives are expected to keep our tenants in Regent Centre satisfied and enable the Group to weather the tough operating environment in maintaining a steady rental income for Regent Centre.

The fundamentals underlying the Hong Kong property market have not been significantly altered despite the negative headwinds now prevailing in the Hong Kong and global economy. The Group will continue to monitor the residential property market in Hong Kong and seek opportunities to apply the remaining proceeds from the Rights Issue for acquiring land or property projects in Hong Kong in a cautious and disciplined manner.

On behalf of the Board

Zhang Xu

Director

Hong Kong, 9 August 2016

Report on Review of Interim Financial Information



Review report to the Board of Directors of Vanke Property (Overseas) Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 8 to 20 which comprises the consolidated statement of financial position of Vanke Property (Overseas) Limited as of 30 June 2016 and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial information in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial information and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2016 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

9 August 2016

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016 — unaudited

	Note	Unaudited	
		For the six months ended 30 June 2016 HK\$'000	30 June 2015 HK\$'000
Revenue	3	45,395	44,506
Cost of services		(10,798)	(9,969)
Gross profit		34,597	34,537
Other income	4	2,771	86
Administrative, leasing and marketing expenses		(6,052)	(6,240)
Increase in fair value of investment properties	9	35,300	67,720
Operating profit		66,616	96,103
Finance income	5(a)	970	–
Finance costs	5(a)	(21)	(6,286)
		67,565	89,817
Share of loss of an associate		(10)	(8)
Profit before taxation	5	67,555	89,809
Taxation charge	6	(5,549)	(4,706)
Profit and total comprehensive income for the period and attributable to shareholders of the Company		62,006	85,103
		HK\$	HK\$
Earnings per share — basic and diluted	7	0.16	0.33

The notes on pages 12 to 20 form part of this interim financial information. Details of dividends paid and payable to shareholders of the Company are set out in note 8.

Consolidated Statement of Financial Position

At 30 June 2016

	Note	Unaudited At 30 June 2016 HK\$'000	Audited At 31 December 2015 HK\$'000
Non-current assets			
Plant and equipment		360	408
Investment properties	9	1,655,200	1,619,900
Interest in an associate	10	467,224	458,976
Deferred tax assets		514	1,126
		2,123,298	2,080,410
Current assets			
Trade and other receivables	11	5,580	3,939
Tax recoverable		–	14
Bank balances and cash		724,540	715,728
		730,120	719,681
Current liabilities			
Other payables and accruals	12	(26,459)	(26,873)
Amount due to an intermediate holding company	13	(1,527)	(1,303)
Tax payable		(4,303)	(2,007)
		(32,289)	(30,183)
Net current assets		697,831	689,498
Total assets less current liabilities		2,821,129	2,769,908
Non-current liabilities			
Deferred tax liabilities		(32,296)	(31,395)
NET ASSETS		2,788,833	2,738,513
CAPITAL AND RESERVES			
Share capital		3,895	3,895
Reserves		2,784,938	2,734,618
TOTAL EQUITY		2,788,833	2,738,513

The notes on pages 12 to 20 form part of this interim financial information.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016 — unaudited

	Attributable to shareholders of the Company			
	Share capital HK\$'000	Share premium HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 January 2016	3,895	1,030,877	1,703,741	2,738,513
Changes in equity for the six months ended 30 June 2016:				
Profit and total comprehensive income for the Period	–	–	62,006	62,006
Final dividend approved in respect of the previous year (<i>note 8(b)</i>)	–	–	(11,686)	(11,686)
At 30 June 2016	3,895	1,030,877	1,754,061	2,788,833
At 1 January 2015	2,596	–	1,549,827	1,552,423
Changes in equity for the six months ended 30 June 2015:				
Profit and total comprehensive income for the period	–	–	85,103	85,103
Final dividend approved in respect of the previous year (<i>note 8(b)</i>)	–	–	(7,791)	(7,791)
At 30 June 2015	2,596	–	1,627,139	1,629,735

The notes on pages 12 to 20 form part of this interim financial information.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2016 — unaudited

	For the six months ended	
	30 June 2016 HK\$'000	30 June 2015 HK\$'000
Operating activities		
Net cash generated from operations	29,551	28,291
Interest and other borrowing costs paid	(21)	(2,788)
Hong Kong Profits Tax paid	(1,726)	(1,559)
Net cash generated from operating activities	27,804	23,944
Investing activities		
Bank interest received	952	–
Purchase of plant and equipment	–	(466)
Repayment from an associate	8,400	21,000
Advances to an associate	(16,658)	(20,569)
Net cash used in investing activities	(7,306)	(35)
Financing activities		
Repayment of bank loans	–	(10,000)
Dividends paid	(11,686)	(7,791)
Net cash used in financing activities	(11,686)	(17,791)
Net increase in cash and cash equivalents	8,812	6,118
Cash and cash equivalents at beginning of the period	715,728	11,986
Cash and cash equivalents at end of the period	724,540	18,104
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	724,540	18,104

The notes on pages 12 to 20 form part of this interim financial information.

Notes to the Unaudited Interim Financial Information

1 GENERAL INFORMATION

Vanke Property (Overseas) Limited (the “Company” and together with its subsidiaries, the “Group”) is a limited liability company incorporated under the laws of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). The registered office of the Company is P.O. Box 309, Uglan House, Grand Cayman KY1-1104, Cayman Islands and the address of its principal office in Hong Kong is 55th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong. The principal activities of the Group are property investment and management and property development.

The Board of Directors of the Company considers the Company’s ultimate holding company is China Vanke Co., Ltd. (“China Vanke”), a joint stock company with limited liability incorporated in the People’s Republic of China and the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, respectively.

2 SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited consolidated interim financial information (the “Interim Financial Information”) has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”).

The Interim Financial Information has been prepared in accordance with the same accounting policies adopted in the financial statements for the year ended 31 December 2015.

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group and the Company. None of these developments are relevant to the Group’s results and financial position. The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

The preparation of Interim Financial Information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This Interim Financial Information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The Interim Financial Information is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. In addition, this Interim Financial Information has been reviewed by the Company’s Audit Committee.

Notes to the Unaudited Interim Financial Information *(continued)*

3 REVENUE AND SEGMENT INFORMATION

The Group's chief operating decision maker assesses the performance of the operating segment primarily based on segment profit. Segment profit represents the profit earned by the segment and excludes mainly head office and corporate expenses (net of unallocated income), finance income, finance costs and taxation charge.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has presented the following two segments:

Rental and property management:	The leasing of the Group's investment properties to earn rental and management fee income and to gain from the appreciation in properties' values in the long term
Property development:	Share of the results of an associate, which principal activity is property development

The segment results are as follows:

For the six months ended 30 June 2016

	Rental and property management HK\$'000	Property development HK\$'000	Total HK\$'000
Revenue	45,395	–	45,395
Segment results before change in fair value of investment properties	36,464	(10)	36,454
Increase in fair value of investment properties	35,300	–	35,300
Segment results	71,764	(10)	71,754
Head office and corporate expenses (net of unallocated income)			(5,147)
Depreciation (included in administrative, leasing and marketing expenses)			(1)
Finance income			970
Finance costs			(21)
Profit before taxation			67,555
Taxation charge			(5,549)
Profit for the Period			62,006

Notes to the Unaudited Interim Financial Information *(continued)*

3 REVENUE AND SEGMENT INFORMATION *(continued)*

The segment results are as follows: (continued)

For the six months ended 30 June 2015

	Rental and property management HK\$'000	Property development HK\$'000	Total HK\$'000
Revenue	44,506	–	44,506
Segment results before change in fair value of investment properties	33,094	(8)	33,086
Increase in fair value of investment properties	67,720	–	67,720
Segment results	100,814	(8)	100,806
Head office and corporate expenses (net of unallocated income)			(4,710)
Depreciation (included in administrative, leasing and marketing expenses)			(1)
Finance costs			(6,286)
Profit before taxation			89,809
Taxation charge			(4,706)
Profit for the period			85,103

4 OTHER INCOME

	For the six months ended	
	30 June 2016	30 June 2015
	HK\$'000	HK\$'000
Compensation receivable from tenants on early lease termination	2,723	48
Others	48	38
	2,771	86

Notes to the Unaudited Interim Financial Information *(continued)*

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	For the six months ended	
	30 June 2016 HK\$'000	30 June 2015 HK\$'000
(a) Finance income and costs		
<i>Finance income</i>		
— Interest income on bank deposits and bank balances	(970)	—
<i>Finance costs</i>		
— Interest expenses on bank loans	—	4,266
— Interest expenses on amount due to an intermediate holding company	21	—
— Other borrowing costs	—	2,020
	21	6,286
(b) Others		
Depreciation		
— included in cost of services	47	20
— included in administrative, leasing and marketing expenses	1	1
Contributions to defined contribution plan	39	32
Salaries, wages and other benefits (including Directors' emoluments)	3,276	2,973
Rental receivables from investment properties less direct outgoings of HK\$10,798,000 (six months ended 30 June 2015: HK\$9,969,000)	(34,597)	(34,537)

Notes to the Unaudited Interim Financial Information *(continued)*

6 TAXATION CHARGE

	For the six months ended	
	30 June 2016 HK\$'000	30 June 2015 HK\$'000
Current tax		
Hong Kong Profits Tax	4,039	3,557
Over provision in prior years	(3)	–
	4,036	3,557
Deferred tax		
Origination and reversal of temporary differences	1,513	1,149
	5,549	4,706

Provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2015: 16.5%) on the estimated assessable profits for the Period.

There is no taxation charge (six months ended 30 June 2015: nil) in the results of an associate for the Period.

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to shareholders of the Company of HK\$62,006,000 (six months ended 30 June 2015: HK\$85,103,000) and 389,527,932 shares (six months ended 30 June 2015: 260,858,886 shares, having adjusted for the effect of rights issue) in issue during the Period.

Diluted earnings per share equals to the basic earnings per share as the Company had no dilutive potential shares in issue during the Period (six months ended 30 June 2015: nil).

Notes to the Unaudited Interim Financial Information *(continued)*

8 DIVIDEND

(a) Dividend attributable to the interim period

The Directors do not recommend the payment of an interim dividend for the Period (six months ended 30 June 2015: nil).

(b) Dividend attributable to the previous financial year, approved and paid during the interim period:

	For the six months ended	
	30 June 2016	30 June 2015
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the Period, of HK\$0.03 (six months ended 30 June 2015: HK\$0.03) per share	11,686	7,791

9 INVESTMENT PROPERTIES

Investment properties of the Group were revalued at 30 June 2016. The valuations were carried by an independent firm of surveyors, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, which has, among its staff experienced Members of the Hong Kong Institute of Surveyors with recent experience in the location and category of the property being valued. The fair value of investment properties is determined by taking into account the net rental income of the property derived from the existing leases with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the market value at appropriate capitalisation rates. During the Period, the increase in fair value of investment properties was HK\$35,300,000 (six months ended 30 June 2015: HK\$67,720,000).

10 INTEREST IN AN ASSOCIATE

	At	At
	30 June 2016	31 December 2015
	HK\$'000	HK\$'000
Share of net assets	3,302	3,312
Amount due from an associate (non-current) (note b)	463,922	455,664
	467,224	458,976

Notes:

- (a) The Group owns 20% equity interest in Ultimate Vantage Limited ("Ultimate Vantage"), which has been granted the rights to develop the property project in the West Rail Tsuen Wan West Station (the "TW6 Project").
- (b) The balance is unsecured, interest-bearing at Hong Kong Interbank Offer Rate ("HIBOR") plus 2.2% (31 December 2015: HIBOR plus 2.2%) per annum and has no fixed terms of repayment, and is expected to be recovered after one year.

Notes to the Unaudited Interim Financial Information *(continued)*

11 TRADE AND OTHER RECEIVABLES

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Trade receivables	764	605
Amortised rent receivables	373	445
Other receivables	1,866	63
Deposits	2,413	2,413
Prepayments	164	413
	5,580	3,939

Trade receivables represent mainly rental receivables from tenants of the Group's investment properties. The Group maintains a defined credit policy in respect of rent collection. The credit quality of a new lease or customer is assessed based on a defined policy set by the Group. Reminders are issued bi-weekly when trade receivables have been overdue for 15 days, and legal actions will be taken when trade receivables are overdue for two months. Normally, the Group does not obtain any collateral from tenants. The ageing analysis of trade receivables, based on the date of revenue recognition, is as follows:

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
0 to 30 days	702	588
31 to 90 days	–	17
Over 90 days	62	–
	764	605

At 30 June 2016, none of the Group's trade receivables were individually determined to be impaired (31 December 2015: nil).

Notes to the Unaudited Interim Financial Information *(continued)*

12 OTHER PAYABLES AND ACCRUALS

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Other payables	2,087	1,624
Deposits received	22,616	22,359
Accruals	1,756	2,890
	26,459	26,873

Except for the rental and other deposits received on properties of HK\$12,782,000 (31 December 2015: HK\$14,307,000) which are expected to be settled after one year, all of the other payables and accruals are expected to be settled within one year or are repayable on demand.

13 AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The amount due to an intermediate holding company is unsecured, interest-free and repayable on demand.

14 CONTINGENT LIABILITIES

On 30 June 2014, Ultimate Vantage entered into a facility agreement in relation to the committed term loan facilities granted by a syndicate of financial institutions to Ultimate Vantage of up to HK\$4,800 million (the "TW6 Banking Facilities") for financing the development of the TW6 Project. In relation to the TW6 Banking Facilities, the Company and the JV Partner were required to provide corporate guarantees, on a several basis and in proportion to their respective shareholding interests in Ultimate Vantage, in respect of Ultimate Vantage's obligations under the TW6 Banking Facilities. The Company has, accordingly been guaranteeing, among others, repayment of the principal amount of the TW6 Banking Facilities up to HK\$960 million (the "Corporate Guarantee"). Details of the provision of the Corporate Guarantee were disclosed in the Company's announcement dated 30 June 2014 and the Company's circular dated 22 July 2014.

Out of the total facilities of the TW6 Banking Facilities of HK\$4,800 million, HK\$1,944 million (31 December 2015: HK\$1,822 million) was utilised by Ultimate Vantage as at 30 June 2016. The Directors considered it was not probable that a claim would be made against the Company under the Corporate Guarantee. The Company did not recognise any deferred income in respect of the Corporate Guarantee as its fair value could not be reliably measured using observable market data and no consideration was received or receivable for the provision of the Corporate Guarantee.

Notes to the Unaudited Interim Financial Information *(continued)*

15 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in this Interim Financial Information, the Group entered into the following material related party transactions in its ordinary course of business during the Period:

	For the six months ended	
	30 June 2016 HK\$'000	30 June 2015 HK\$'000
Rental and management fee income receivable from fellow subsidiaries <i>(note (a))</i>	156	291
Management and administrative fee payable to an intermediate holding company <i>(note (b))</i>	(681)	(875)
Key management compensation <i>(note (c))</i>	(2,330)	(2,352)
Interest payable to an intermediate holding company <i>(note (d))</i>	(21)	–

Notes:

- (a) Rental and management fee income is charged at rates pursuant to a tenancy agreement entered into between the Group and the fellow subsidiaries on normal commercial terms.
- (b) Management and administrative fee is charged on a cost basis. The details of the amount due to the intermediate holding company are set out in note 13.
- (c) Key management personnel represent the Directors and senior management of the Company.
- (d) On 16 May 2013, the Group entered into an agreement to acquire the entire issued share capital of Wkdeveloper Limited and all related shareholder's loans from Vanke Property (Hong Kong) Company Limited ("Vanke HK") at a cash consideration of HK\$727,900,000 (the "TW6 Agreement"). The TW6 Agreement provides, among other things, that Vanke HK shall, if required, provide financial assistance to the Group in respect of the obligations of the Group in the TW6 Project after completion of the transaction and any such financial assistance shall be unsecured and bear a simple interest at the rate of 1-month HIBOR plus 2.8% per annum. The entering into of the TW6 Agreement constituted a major and connected transaction to the Company under the Listing Rules and was approved by the independent shareholders of the Company at an extraordinary general meeting held on 21 June 2013.

In January 2016, Vanke HK provided an interest-bearing advance of HK\$7,200,000 to the Group for discharge of the obligations of the Group in the TW6 Project. The advance from Vanke HK was repaid in full in February 2016.

Other Information

REVIEW OF INTERIM FINANCIAL INFORMATION

The interim financial information of the Group for the Period is unaudited, but has been reviewed by KPMG, the Company's independent auditor, in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA, whose unmodified review report is included in this interim report. The interim financial information has also been reviewed by the Company's Audit Committee.

Apart from reviewing the interim financial information, the Audit Committee has also considered the significant accounting principles and policies adopted by the Company and discussed with management the internal control and financial reporting matters in respect of this interim report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules during the Period, except for the following deviations:

Code provision A.2.1

Code provision A.2.1 stipulates that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

The Company has not appointed Chairman and Chief Executive since 1 September 2012. All duties of chairman and chief executive under code provisions A.2.2 to A.2.9 are shared between Mr. Zhang Xu and Ms. Que Dong Wu, the Executive Directors.

The Board of Directors of the Company (the "Board") considers that the current arrangement is adequate in view of the size and complexity of the Group's operations. The Board will consider appointing Chairman and Chief Executive at an appropriate stage when the Group has increased its size of operation.

Code provision A.2.7

Code provision A.2.7 stipulates that the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.

As the Company has not appointed Chairman of the Board, this code provision is not applicable to the Company.

Code provision F.1.3

Code provision F.1.3 stipulates that the company secretary should report to the board chairman and/or the chief executive.

During the Period, the Company Secretary reported to the Executive Directors, as the Company has no Chairman or Chief Executive.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to the Directors, all the Directors confirmed that they had complied with the required standard set out in the Model Code throughout the Period. The Company has also established written guidelines on no less exacting terms than the Model Code for relevant employees (as such term is defined in the CG Code) in respect of their dealings in the securities of the Company.

Other Information *(continued)*

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the Period.

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Mr. Chan Chi Yu ceased to be a consultant of China Vanke in April 2016. Apart from this, there has been no change to the information of the Directors since the date of the issuance of the annual report of the Company for the year ended 31 December 2015, which is required to be disclosed in this interim report pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30 June 2016, the interests or short positions of the Directors in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept under section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Interests in an associated corporation, China Vanke

Name of Director	Type of shares	Number of ordinary shares held					Total interests	Percentage of issued share capital <i>(Note)</i>
		Interest held as beneficial owner	Interest held by spouse	Interest held by controlled corporations	Other interests	Number of underlying shares held under equity derivatives		
Zhang Xu	A shares	904,039	–	–	–	–	904,039	0.01%
Que Dong Wu	A shares	1,350,700	–	–	–	–	1,350,700	0.01%
Chan Chi Yu	A shares	530,000	–	–	–	–	530,000	0.01%
	H shares	–	–	500,203	–	–	500,203	0.04%

Note: The total number of ordinary A shares of China Vanke in issue as at 30 June 2016 was 9,724,196,533 and the total number of ordinary H shares of China Vanke in issue as at 30 June 2016 was 1,314,955,468. The percentage of issued share capital shown above is calculated based on the number of issued shares in the relevant class alone, without taking into account the issued share capital of the other classes.

All the interests in the shares disclosed under this section represent long position in the shares of the associated corporations of the Company. Save as disclosed herein, as at 30 June 2016, none of the Directors or any of their spouses or children aged under eighteen years of age had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be recorded in the register kept by the Company under section 352 of the SFO or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Other Information *(continued)*

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to a business partnership scheme adopted by China Vanke in 2014, certain employees of the China Vanke Group have been admitted as business partners entrusting part of their bonuses into a collective account ("collective bonuses") for investment management by Shenzhen Yang'an Financial Advisory Limited, including the introduction of leveraged finance for investment. All business partners in the scheme have undertaken that the collective bonuses and derivative assets will be centralized under closed-end management, without any payment to specific individuals, before the release of the contingent obligation requiring the return of the collective bonuses to China Vanke, and before the payment of principal and interest for the leveraged finance. A letter of authorization and undertaking was executed by all business partners. Mr. Zhang Xu and Ms. Que Dong Wu are business partners in the scheme.

Save for the above, at no time during the Period was the Company or any of its subsidiaries or the Company's holding company or a subsidiary of the Company's holding company a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

The Company did not have any share option scheme in force during the Period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Apart from the interests or short positions of the Directors in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as disclosed in the section "Directors' Interests in Equity or Debt Securities", the register kept under section 336 of the SFO (the "Register") shows that as at 30 June 2016 the Company has been notified of the following interests or short positions in the shares of the Company:

Name of substantial shareholder	Long position/ short position	Capacity of interest	Total number of shares in which the shareholder is interested	Percentage of shareholding
China Vanke (Note 1)	Long position	Held by controlled corporations	292,145,949	75.0%
CITIC Securities Company Limited (Note 2)	Long position	Held by controlled corporations	30,080,000	7.72%

Notes:

- As recorded in the Register, the 292,145,949 ordinary shares of the Company are held by China Vanke through Wkland Investments Company Limited ("Wkland Investments"), which is an indirect wholly-owned subsidiary of China Vanke. Wkland Investments is a direct wholly-owned subsidiary of Wkland Limited. Wkland Limited is a direct wholly-owned subsidiary of Vanke HK. Vanke HK is a direct wholly-owned subsidiary of Shanghai Vanke Real Estate Company Limited. Shanghai Vanke Real Estate Company Limited is a direct wholly-owned subsidiary of Shanghai Vanke Investment and Management Company Limited. Shanghai Vanke Investment and Management Company Limited is a direct wholly-owned subsidiary of China Vanke.
- As recorded in the Register, the 30,080,000 ordinary shares of the Company are held by CSI Capital Management Limited, which is a direct wholly-owned subsidiary of CITIC Securities International Company Limited, which in turn is a direct wholly-owned subsidiary of CITIC Securities Company Limited.

Other Information *(continued)*

DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

As at 30 June 2016, the aggregate of amount of financial assistance provided by the Group to Ultimate Vantage, an affiliated company of the Company as defined under the Listing Rules, by way of shareholder's loans and guarantees given for facilities granted to Ultimate Vantage amounted to HK\$1,424 million, which exceeded 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

Details of the relevant advances to Ultimate Vantage as at 30 June 2016 are as follows:

	Note	HK\$ million
Amounts due from Ultimate Vantage — non-current portion	(a)	464
Guarantee for loan facilities of Ultimate Vantage	(b)	960
Total		1,424

Notes:

- (a) *The balance is unsecured, interest-bearing at HIBOR plus 2.2% per annum, has no fixed terms of repayment, and is expected to be recovered after one year.*
- (b) *The loan facilities are secured by, inter alia, guarantees provided by the Company and the other joint venture partner on a several basis and in proportion to their respective shareholding interest in Ultimate Vantage. The loan facilities carry interest at normal commercial rate agreed after arm's length negotiations with the lenders concerned. The final maturity date of the loan facilities is the earlier of 29 June 2019 or the date falling six months after the issuance of the certificate of compliance in respect of the property development project undertaken by Ultimate Vantage.*

The statement of financial position of Ultimate Vantage as at 30 June 2016 and the Group's attributable interest therein are set out below.

	Note	Statement of financial position of Ultimate Vantage HK\$ million	Group's attributable interest HK\$ million
Current assets		4,525	905
Current liabilities		(87)	(17)
Loans due to shareholders — non-current portion	(a)	(2,513)	(464)
Other non-current liabilities		(1,908)	(382)
Net assets		17	3

Note:

- (a) *The balance is unsecured, interest-bearing at HIBOR plus 2.2% per annum, has no fixed terms of repayment, and is expected to be repaid after one year.*

PUBLICATION OF INTERIM REPORT

The interim report in both English and Chinese is available in printed form and on the website of the Company at www.vankeoverseas.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk. Shareholders may at any time change their means of receiving corporate communications of the Company (in hard copy or through electronic means) free of charge by giving reasonable notice in writing to the Company's Hong Kong Share Registrar or by email to vankeoverseas.ecom@computershare.com.hk.