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# MAGNIFICENT ESTATES LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 201)

## 2012 INTERIM RESULTS

### RESULTS

The board of directors (the "Board") of Magnificent Estates Limited (the "Company") announces that the unaudited consolidated profit of the Company and its subsidiaries (together the "Group") for the six months ended 30th June, 2012 amounted to approximately HK\$222,778,000 (six months ended 30th June, 2011: HK\$395,799,000).

The unaudited consolidated results of the Group for the period, together with comparative figures for the previous period, are as follows:

### Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30th June, 2012

	Notes	Six months ended	
		30.6.2012 HK\$'000 (unaudited)	30.6.2011 HK\$'000 (restated)
Revenue	3	214,888	162,379
Cost of sales		(1,571)	(1,451)
Other service costs		(66,060)	(51,255)
Depreciation of property, plant and equipment and release of prepaid lease payments for land		<u>(14,209)</u>	<u>(9,297)</u>
Gross profit		133,048	100,376
Increase in fair value of investment properties		129,820	324,280
Other income		8,315	7,671
Loss on fair value changes of investments held for trading		-	(2)
Administrative expenses		(10,748)	(9,955)
- Depreciation		(1,485)	(2,436)
- Others		(9,263)	(7,519)
Other expenses		(11,047)	(10,578)
Finance costs	5	<u>(5,886)</u>	<u>(3,737)</u>
Profit before taxation		243,502	408,055
Income tax expense	6	<u>(20,724)</u>	<u>(12,256)</u>
Profit for the period attributable to owners of the Company	7	<u>222,778</u>	<u>395,799</u>

**Condensed Consolidated Statement of Comprehensive Income (Continued)**  
For the six months ended 30th June, 2012

		<b>Six months ended</b>	
	<i>Note</i>	<b>30.6.2012</b>	30.6.2011
		<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(unaudited)</b>	<b>(restated)</b>
<b>Other comprehensive (expense) income</b>			
Exchange differences arising on translation of foreign operations		<b>(1,191)</b>	1,545
Gain on fair value changes of available-for-sale investments		<u><b>8,139</b></u>	<u>2,614</u>
Other comprehensive income for the period		<u><b>6,948</b></u>	<u>4,159</u>
Total comprehensive income for the period attributable to owners of the Company		<u><b>229,726</b></u>	<u>399,958</u>
		<b>HK cents</b>	<b>HK cents</b>
Earnings per share			
Basic	9	<u><b>2.49</b></u>	<u>4.43</u>

## Condensed Consolidated Statement of Financial Position

At 30th June, 2012

	<i>Notes</i>	As at 30.6.2012 <i>HK\$'000</i> (unaudited)	As at 31.12.2011 <i>HK\$'000</i> (restated)
<b>Non-current assets</b>			
Property, plant and equipment		1,125,457	1,133,012
Prepaid lease payments for land		59,859	61,049
Investment properties		2,756,700	2,626,880
Properties under development		1,613,063	1,517,390
Available-for-sale investments		<u>139,661</u>	<u>131,522</u>
		<u>5,694,740</u>	<u>5,469,853</u>
<b>Current assets</b>			
Inventories		825	660
Properties held for sale		21,650	21,650
Prepaid lease payments for land		1,502	1,502
Trade and other receivables	10	13,876	19,939
Other deposits and prepayments		11,033	6,938
Pledged bank deposits		110	110
Bank balances and cash		<u>111,207</u>	<u>99,540</u>
		<u>160,203</u>	<u>150,339</u>
<b>Current liabilities</b>			
Trade and other payables and accruals	11	64,526	62,802
Rental and other deposits received		3,941	6,786
Advance from immediate holding company		123,189	104,245
Advance from ultimate holding company		60,954	59,960
Advance from a fellow subsidiary		4,745	4,745
Tax liabilities		26,127	14,164
Bank loans		<u>1,103,925</u>	<u>1,110,957</u>
		<u>1,387,407</u>	<u>1,363,659</u>
<b>Net current liabilities</b>		<u>(1,227,204)</u>	<u>(1,213,320)</u>
<b>Total assets less current liabilities</b>		<u>4,467,536</u>	<u>4,256,533</u>
<b>Capital and reserves</b>			
Share capital		89,471	89,471
Share premium and reserves		<u>4,274,639</u>	<u>4,071,754</u>
		<u>4,364,110</u>	<u>4,161,225</u>
<b>Non-current liabilities</b>			
Rental deposits received		28,632	26,993
Deferred tax liabilities		<u>74,794</u>	<u>68,315</u>
		<u>103,426</u>	<u>95,308</u>
		<u>4,467,536</u>	<u>4,256,533</u>

Notes:

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

Excepted as described below, the accounting policies used in the condensed consolidated financial statements for the six months ended 30th June, 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

Amendments to HKFRS 7	Disclosures - Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

### **Amendments to the HKAS 12 *Deferred Tax: Recovery of Underlying Assets***

Under the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is not rebutted.

As a result of the application of the amendments to HKAS 12, the Group does not recognise any deferred taxes on changes in fair value of certain investment properties as the Group is not subject to any income taxes on disposal of those investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties based on the tax consequences that would follow from the manner in which the Group expects to recover the carrying amount of the investment properties.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Amendments to the HKAS 12 Deferred Tax: Recovery of Underlying Assets (continued)

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group's deferred tax liabilities being decreased by HK\$336,312,000 as at 31st December, 2011, with the corresponding adjustment being recognised in retained profits. In addition, the application of the amendments has resulted in the Group's income tax expense for the six months ended 30th June, 2012 and 30th June, 2011 being reduced by HK\$20,844,000 and HK\$52,678,000 respectively and hence resulted in the profit for the six months ended 30th June, 2012 and 30th June, 2011 being increased by HK\$20,844,000 and HK\$52,678,000 respectively.

The effect of the change in accounting policy described above on the results for the current and preceding interim periods by line items presented in the condensed consolidated statement of comprehensive income is as follows:

	<b>Six months ended</b>	
	<b>30.6.2012</b>	<b>30.6.2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Decrease in income tax expense of the		
Group and increase in profit for the period	<u><b>20,844</b></u>	<u><b>52,678</b></u>

The effect of the change in accounting policy described above on the financial position of the Group as at the end of the immediately preceding financial year, i.e. 31st December, 2011, is as follows:

	As at	Adjustments	As at
	31.12.2011		31.12.2011
	(originally		(restated)
	stated)	HK\$'000	HK\$'000
	HK\$'000		
Effects on net assets:			
Deferred tax liabilities	<u>404,627</u>	<u>(336,312)</u>	<u>68,315</u>
Effects on equity:			
Retained profits	<u>2,290,242</u>	<u>336,312</u>	<u>2,626,554</u>

The effect of the change in accounting policy described above on the financial position of the Group as at the beginning of the comparative period, i.e. 1st January, 2011, is as follows:

	As at	Adjustments	As at
	1.1.2011		1.1.2011
	(originally		(restated)
	stated)	HK\$'000	HK\$'000
	HK\$'000		
Effects on net assets:			
Deferred tax liabilities	<u>343,981</u>	<u>(289,208)</u>	<u>54,773</u>
Effects on equity:			
Retained profits	<u>1,876,368</u>	<u>289,208</u>	<u>2,165,576</u>

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Impact on basic earnings per share

	Six months ended	
	30.6.2012 <i>HK cents</i>	30.6.2011 <i>HK cents</i>
Basic earnings per share before adjustments	2.26	3.84
Adjustments arising from change in accounting policy in relation to:		
- application of amendments to HKAS 12 in respect of deferred taxes on investment properties	<u>0.23</u>	<u>0.59</u>
	<u>2.49</u>	<u>4.43</u>

Except as described above, the application of other amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 3. REVENUE

Revenue represents the aggregate of income from operation of hotels and property rental, and is analysed as follows:

	Six months ended	
	30.6.2012 <i>HK\$'000</i> (unaudited)	30.6.2011 <i>HK\$'000</i> (unaudited)
Income from operation of hotels	165,103	115,841
Property rental	<u>49,785</u>	<u>46,538</u>
	<u>214,888</u>	<u>162,379</u>

#### 4. SEGMENT INFORMATION

The Group's operating and reportable segments, based on information reported to the chief operating decision maker, Chairman of the Company, for the purpose of resources allocation and performance assessment are as follows:

1. Hospitality services - Ramada Hotel Kowloon
2. Hospitality services - Ramada Hong Kong Hotel
3. Hospitality services - Best Western Hotel Taipa, Macau
4. Hospitality services - Magnificent International Hotel, Shanghai
5. Hospitality services - Best Western Hotel Causeway Bay
6. Property investment - 633 King's Road
7. Property investment - Shun Ho Tower
8. Property investment - Shops
9. Securities investment and trading
10. Property development for hotel – 239 Queen's Road West
11. Property development for hotel – 23 Austin Avenue
12. Property development for hotel – 338 Queen's Road West

The following is an analysis of the Group's revenue and results by operating and reportable segment for the periods under review:

	Segment revenue Six months ended		Segment profit (loss) Six months ended	
	30.6.2012 HK\$'000 (unaudited)	30.6.2011 HK\$'000 (unaudited)	30.6.2012 HK\$'000 (unaudited)	30.6.2011 HK\$'000 (unaudited)
Hospitality services	<b>165,103</b>	115,841	<b>83,381</b>	54,454
- Ramada Hotel Kowloon	<b>37,304</b>	34,346	<b>16,816</b>	15,080
- Ramada Hong Kong Hotel	<b>47,960</b>	43,512	<b>28,562</b>	25,237
- Best Western Hotel Taipa, Macau	<b>31,145</b>	27,214	<b>16,870</b>	13,659
- Magnificent International Hotel, Shanghai	<b>9,742</b>	8,361	<b>1,454</b>	833
- Best Western Hotel Causeway Bay	<b>38,952</b>	2,408	<b>19,679</b>	(355)
Property investment	<b>49,785</b>	46,538	<b>179,487</b>	370,202
- 633 King's Road	<b>35,223</b>	34,145	<b>101,152</b>	313,646
- Shun Ho Tower	<b>8,993</b>	7,988	<b>32,166</b>	20,151
- Shops	<b>5,569</b>	4,405	<b>46,169</b>	36,405
Securities investment and trading	-	-	-	(2)
Property development for hotel	-	-	-	-
- 239 Queen's Road West	-	-	-	-
- 23 Austin Avenue	-	-	-	-
- 338 Queen's Road West	-	-	-	-
	<b><u>214,888</u></b>	<b><u>162,379</u></b>	<b><u>262,868</u></b>	<b><u>424,654</u></b>
Other income			<b>8,315</b>	7,671
Other expenses			<b>(11,047)</b>	(10,578)
Central administration costs and directors' salaries			<b>(10,748)</b>	(9,955)
Finance costs			<b><u>(5,886)</u></b>	<b><u>(3,737)</u></b>
Profit before taxation			<b><u>243,502</u></b>	<b><u>408,055</u></b>

#### 4. SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's assets by operating segment and reportable segment:

	As at 30.6.2012 HK\$'000 (unaudited)	As at 31.12.2011 HK\$'000 (audited)
<b>Segment assets</b>		
Hospitality services	1,126,726	1,146,010
- Ramada Hotel Kowloon	158,277	163,623
- Ramada Hong Kong Hotel	341,489	343,582
- Best Western Hotel Taipa, Macau	130,017	132,399
- Magnificent International Hotel, Shanghai	92,681	94,845
- Best Western Hotel Causeway Bay	404,262	411,561
Property investment	2,758,620	2,629,149
- 633 King's Road	1,851,552	1,786,128
- Shun Ho Tower	484,068	460,621
- Shops	423,000	382,400
Securities investment and trading	139,661	131,522
Property development for hotel	1,622,693	1,519,692
- 239 Queen's Road West	536,130	484,883
- 23 Austin Avenue	855,790	808,407
- 338 Queen's Road West	230,773	226,402
<b>Unallocated assets</b>	<b>5,647,700</b>	<b>5,426,373</b>
	<b>207,243</b>	<b>193,819</b>
	<b>5,854,943</b>	<b>5,620,192</b>

#### 5. FINANCE COSTS

	Six months ended 30.6.2012 HK\$'000 (unaudited)	30.6.2011 HK\$'000 (unaudited)
Interests on:		
Bank loans wholly repayable within five years	11,713	6,400
Advance from immediate holding company wholly repayable within five years	1,723	465
Advance from ultimate holding company wholly repayable within five years	994	360
Effective interest expense on mandatory convertible bonds	-	702
	14,430	7,927
Less: amount capitalised in properties under development	(8,544)	(4,190)
	<b>5,886</b>	<b>3,737</b>



## 6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2012 HK\$'000 (unaudited)	30.6.2011 HK\$'000 (restated)
Current tax		
Hong Kong	12,242	10,418
The People's Republic of China ("PRC")	252	139
Other jurisdiction	<u>1,751</u>	<u>1,366</u>
	14,245	11,923
Deferred tax		
Current period	<u>6,479</u>	<u>333</u>
	<u>20,724</u>	<u>12,256</u>

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The annual tax rate used is 16.5% for the six months ended 30th June, 2012 (six months ended 30th June, 2011: 16.5%).

Taxation arising in the PRC and other jurisdiction is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year prevailing in the relevant jurisdictions.

## 7. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2012 HK\$'000 (unaudited)	30.6.2011 HK\$'000 (unaudited)
Profit for the period has been arrived at after charging (crediting):		
Release of prepaid lease payments for land	784	751
Depreciation of property, plant and equipment	14,910	10,982
Pre-operating expenses (included in other expenses)	4,236	4,146
Interest on bank deposits (included in other income)	<u>(362)</u>	<u>(4)</u>

## 8. DIVIDEND

During the six months ended 30th June, 2012, a final dividend of HK0.3 cent per share amounting to HK\$26,841,000 was payable to shareholders for the year ended 31st December, 2011 (six months ended 30th June, 2011: a final dividend of HK0.3 cent per share amounting to HK\$26,841,000 was paid to shareholders for the year ended 31st December, 2010).

The interim dividend in respect of the six months ended 30th June, 2012 of HK0.15 cent per share amounting to HK\$13,421,000 has been declared by the Board (six months ended 30th June, 2011: Nil).

## 9. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

### Earnings

	Six months ended	
	30.6.2012	30.6.2011
	HK\$'000	HK\$'000
	(unaudited)	(restated)
Profit for the period attributable to owners of the Company	222,778	395,799
Effective interest expense on mandatory convertible bonds	<u>-</u>	<u>702</u>
Earnings for the purpose of basic earnings per share	<u>222,778</u>	<u>396,501</u>

### Number of shares

	' 000	' 000
	(unaudited)	(unaudited)
Weighted average number of ordinary shares in issue	8,947,051	7,266,594
Effect of ordinary shares to be issued upon the conversion of mandatory convertible bonds	<u>-</u>	<u>1,680,457</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>8,947,051</u>	<u>8,947,051</u>

Diluted earnings per share for both periods are not shown as there are no potential ordinary shares subsisted during both of the periods presented.

## 10. TRADE AND OTHER RECEIVABLES

Except for a credit period of 30 to 60 days granted to travel agencies and customers of the hotels, the Group does not allow any credit period to its other customers. The following is an analysis of trade receivables by age, presented based on the invoice date, at the end of the reporting period:

	As at	As at
	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Not yet due	11,282	16,923
Overdue:		
0-30 days	1,119	596
31-60 days	42	56
Over 60 days	<u>-</u>	<u>90</u>
	<u>12,443</u>	<u>17,665</u>
Analysed for reporting as:		
Trade receivables	12,443	17,665
Other receivables	<u>1,433</u>	<u>2,274</u>
	<u>13,876</u>	<u>19,939</u>

## 11. TRADE AND OTHER PAYABLES AND ACCRUALS

The following is an analysis of trade payables by age, presented based on invoice date, at the end of the reporting period:

	As at 30.6.2012 HK'000 (unaudited)	As at 31.12.2011 HK'000 (audited)
0-30 days	2,554	2,611
31-60 days	101	299
Over 60 days	<u>403</u>	<u>380</u>
	<u><u>3,058</u></u>	<u><u>3,290</u></u>
Analysed for reporting as:		
Trade payables	3,058	3,290
Other payables and accruals ( <i>Note</i> )	<u>61,468</u>	<u>59,512</u>
	<u><u>64,526</u></u>	<u><u>62,802</u></u>

*Note:* Other payables and accruals include construction costs payable of HK\$36,522,000 (31st December, 2011: HK\$44,624,000).

### INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK0.15 cent per share for the six months ended 30th June, 2012 (six months ended 30th June, 2011: Nil) payable on 19th July, 2013 to shareholders whose names appear on the register of members of the Company on 5th July, 2013.

### BOOK CLOSURE

The register of members will be closed from Tuesday, 2nd July, 2013 to Friday, 5th July, 2013, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. Friday, 28th June, 2013.

### MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group continued with its operations of properties investment, properties development and operation of hotels.

The unaudited **consolidated profit** attributable to owners of the Company for the six months ended 30th June, 2012 amounted to HK\$222,778,000 (six months ended 30th June, 2011: HK\$395,799,000), decreased by 44% due to decreased property revaluation gain compared with same period last year.

Before revaluation profit of all investment properties, depreciation and release of prepaid lease payments for land, the **operating profit** attributable to owners of the Company for the six months ended 30th June, 2012 is HK\$109 million (six months ended 30th June, 2011: HK\$83 million), increased by 31%.

The net assets before revaluation on all asset properties and before deferred tax of the Group amounted to HK\$4,439 million (31.12.2011: HK\$4,230 million), HK\$0.50 (31.12.2011: HK\$0.47) per ordinary share as at 30th June, 2012.

The **NET ASSETS AFTER REVALUATION** on all asset properties but before deferred tax of the Group amounted to **HK\$8,921 million** (31.12.2011: HK\$7,715 million), **HK\$1.00** per ordinary share as at 30th June, 2012 (31.12.2011: HK\$0.86 per ordinary share).

The **CORPORATE STRATEGY** of the Group is to build hotels on grade B commercial locations which are most suitable for hotel business in terms of low acquisition costs and high yields. The Group benefits from the development of these hotels from good operating incomes, but most importantly is their capital value gain. The Group presently owns and operates the Ramada Hotel Kowloon, Ramada Hong Kong Hotel, Best Western Hotel Taipa, Macau, Magnificent International Hotel, Shanghai, Best Western Hotel Causeway Bay and Best Western Hotel Harbour View with 1,690 rooms together with two new hotels under development, the Group will have about 2,300 hotel rooms which will be one of the largest hotel groups in Hong Kong. Such strategy has successfully helped to increase the value of the Group substantially:

	31.12.2009	31.12.2010	31.12.2011	30.06.2012
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Adjusted Shareholders' Fund	5,187	6,397	7,715	<b>8,921</b>
Adjusted Net Asset Value Per Ordinary Share	HK\$0.87	HK\$1.07	HK\$0.86	<b>HK\$1.00</b>

## PERFORMANCES

- For the six months ended 30th June, 2012, the **GROUP'S INCOME** was mostly derived from the aggregate of income from operation of hotels and properties rental income, which was analysed as follows:

	Six months ended		
	30.6.2011	30.6.2012	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
	(unaudited)	(unaudited)	
Income from operation of hotels	115,841	<b>165,103</b>	+43%
Properties rental income	46,538	<b>49,785</b>	+7%
Other income	<u>7,671</u>	<u><b>8,315</b></u>	+8%
<b>Total</b>	170,050	<b>223,203</b>	+31%

The total income for the Group increased by 31% from HK\$170 million to HK\$223 million for the same period compared with last year. The increase of revenue for the period was due to substantial improvement in hotel revenue.

	Ramada Hotel Kowloon		Ramada Hong Kong Hotel		Best Western Hotel Causeway Bay		Best Western Hotel Taipa, Macau		Magnificent International Hotel, Shanghai	
	Avg Room Occupancy %	Avg Room Rate HK\$	Avg Room Occupancy %	Avg Room Rate HK\$	Avg Room Occupancy %	Avg Room Rate HK\$	Avg Room Occupancy %	Avg Room Rate HK\$	Avg Room Occupancy %	Avg Room Rate HK\$
2012										
Jan	98	1,147	89	977	90	1,038	94	837	63	302
Feb	98	923	93	783	94	833	97	603	70	325
Mar	98	1,007	93	887	94	946	97	630	86	343
Apr	97	1,166	91	1,023	94	1,017	95	707	90	359
May	96	839	91	711	90	711	97	578	80	352
Jun	97	864	96	752	96	720	96	573	85	336
2012 Total		<b>HK\$37,304,000</b>		<b>HK\$47,960,000</b>		<b>HK\$38,952,000</b>		<b>HK\$31,145,000</b>		<b>HK\$9,742,000</b>
2011 Total		<u>HK\$34,346,000</u>		<u>HK\$43,512,000</u>		<u>HK\$2,408,000</u>		<u>HK\$27,214,000</u>		<u>HK\$8,361,000</u>
Change compared with 2011		+9%		+10%		N/A		+14%		+17%

The **PROPERTIES RENTAL INCOME** was derived from office buildings of Shun Ho Tower, 633 King's Road and shops from Ramada Hotel Kowloon, Ramada Hong Kong Hotel and Best Western Hotel Taipa, Macau amounted to HK\$50 million (six months ended 30th June, 2011: HK\$47 million). The growth was derived from 633 King's Road. At the date of this announcement, it provided an annual rental income of HK\$71 million (excluding rates and management fee incomes).

The properties rental income was analysed as follows:

	<b>Six months ended</b>		<b>Change</b>
	30.6.2011 HK\$'000 (unaudited)	<b>30.6.2012</b> <b>HK\$'000</b> <b>(unaudited)</b>	
633 King's Road	34,145	<b>35,223</b>	+3%
Shun Ho Tower	7,988	<b>8,993</b>	+13%
Shops	<u>4,405</u>	<u><b>5,569</b></u>	+26%
<b>Total</b>	46,538	<b>49,785</b>	+7%

**OTHER INCOME** amounted to HK\$8.3 million (six months ended 30th June 2011: HK\$7.7 million) which was mostly property management fee income of HK\$7.7 million (six months ended 30th June 2011: HK\$7.4 million) with related expenses of HK\$6.8 million (six months ended 30th June 2011: HK\$6.4 million).

	<b>Six months ended</b>	
	<b>30.6.2012</b> <b>HK\$'000</b> <b>(unaudited)</b>	30.6.2011 <b>HK\$'000</b> (restated)
<b>Revenue</b>	<b>214,888</b>	<b>162,379</b>
Cost of sales	<b>(1,571)</b>	(1,451)
Other service costs	<b>(66,060)</b>	(51,255)
<b>Depreciation of property, plant and equipment and release of prepaid lease payments for land</b>	<u><b>(14,209)</b></u>	<u><b>(9,297)</b></u>
Gross profit	<b>133,048</b>	100,376
<b>Increase in fair value of investment properties</b>	<b>129,820</b>	<b>324,280</b>
Other income	<b>8,315</b>	7,671
Loss on fair value changes of investments held for trading	-	(2)
Administrative expenses	<b>(10,748)</b>	(9,955)
- Depreciation	<b>(1,485)</b>	(2,436)
- Others	<b>(9,263)</b>	(7,519)
Other expenses	<b>(11,047)</b>	(10,578)
<b>Finance costs</b>	<u><b>(5,886)</b></u>	<u><b>(3,737)</b></u>
Profit before taxation	<b>243,502</b>	408,055
Income tax expense	<u><b>(20,724)</b></u>	<u>(12,256)</u>
Profit for the period attributable to owners of the Company	<u><u><b>222,778</b></u></u>	<u><u>395,799</u></u>

## COSTS

- **OVERALL SERVICE COSTS** for the Group for the period was HK\$66.1 million (six months ended 30th June, 2011: HK\$51.2 million), which HK\$66 million (six months ended 30th June, 2011: HK\$50.7 million) was for the hotel operations including food and beverage and cost of sales and HK\$0.1 million (six months ended 30th June, 2011: HK\$0.5 million) was mainly for rates and leasing commission paid for investment properties. The leasing commissions paid for the leased premises represent total commissions payable for the three years of rental period.

The approximate **OPERATING COST**, food and beverage and improvement costs for each operating hotel were as follows:

Name of Hotel	Six months ended		Change
	30.6.2011 <i>HK\$ million per month</i>	30.6.2012 <i>HK\$ million per month</i>	
Ramada Hotel Kowloon	2.75	2.84	+3%
Ramada Hong Kong Hotel	2.60	2.87	+10%
Best Western Hotel Causeway Bay	N/A	2.21	N/A
Best Western Hotel Taipa, Macau	1.90	2.01	+6%
Magnificent International Hotel, Shanghai	0.90	1.07	+19%
<b>Average expenses per month</b>	8.15	11.00	+35%
<b>Total amount for the period</b>	48.90	66.00	
Best Western Hotel Causeway Bay	1.80 (June 2011 operating expenses)	N/A	
<b>Total amount for the period</b>	50.70	66.00	

During the period, the **ADMINISTRATIVE EXPENSES** excluding depreciation was HK\$9.3 million (six months ended 30th June, 2011: HK\$7.5 million) for corporate management office including directors' fees, salaries for executive staff and employees, rental, marketing expenses and office expenses.

**OTHER EXPENSES** were HK\$11 million (six months ended 30th June, 2011: HK\$10.6 million). Other expenses included property management expenses of HK\$6.8 million (six months ended 30th June, 2011: HK\$6.4 million) and the total pre-operating expenses of Best Western Hotel Harbour View and Best Western Grand Hotel of HK\$4.2 million (six months ended 30th June, 2011: the pre-operating expense of Best Western Hotel Causeway Bay: HK\$4.1 million). The property management expenses were increased by HK\$0.4 million due to the increase of cost of staff and utilities while the management fee remained unchanged.

The accounting standards require hotel properties of the Group to provide depreciation which amounted to HK\$14.2 million (six months ended 30th June, 2011: HK\$9.3 million) for the period. The depreciation increased from HK\$9.3 million to HK\$14.2 million was wholly due to the depreciation of Best Western Hotel Causeway Bay amounted to HK\$5.9 million was included (six months ended 30th June, 2011: HK\$1 million).

## DEPRECIATION OF HOTEL PROPERTIES

Name of Hotel	Six months ended		Change HK\$ million
	30.6.2011 HK\$ million	30.6.2012 HK\$ million	
Ramada Hotel Kowloon	3.3	<b>3.3</b>	-
Ramada Hong Kong Hotel	1.8	<b>1.8</b>	-
Best Western Hotel Taipa, Macau	1.7	<b>1.7</b>	-
Magnificent International Hotel, Shanghai	1.5	<b>1.5</b>	-
	8.3	<b>8.3</b>	
Best Western Hotel Causeway Bay	1.0	<b>5.9</b>	+4.9
<b>Total amount for the period</b>	9.3	<b>14.2</b>	+4.9

## FUNDING

- As at 30th June, 2012, the **overall debts** of the Group was HK\$1,288 million (31.12.2011: HK\$1,275 million), of which HK\$1,104 million (31.12.2011: HK\$1,111 million) was bank borrowings and HK\$184 million (31.12.2011: HK\$164 million) was advance from shareholders.

The debt ratio was 12% (31.12.2011: 14%) in term of overall debt of HK\$1,288 million (31.12.2011: HK\$1,275 million) against the fully revalued assets of the Group amounted to HK\$10,337 million (31.12.2011: HK\$9,106 million).

The gearing ratio was approximately 30% (31.12.2011: 31%) in term of overall debt of HK\$1,288 million (31.12.2011: HK\$1,275 million) against funds employed of HK\$4,364 million (31.12.2011: HK\$4,161 million).

The overall debts was analysed as follows:

	For the year ended 31.12.2011 HK\$ million	For the six months ended 30.06.2012 HK\$ million	Change HK\$ million	Interest Paid
				For the six months ended 30.06.2012 HK\$ million
Overall debt	1,275	<b>1,288</b>	+13	<b>14.4</b>
– bank loans	1,111	<b>1,104</b>	-7	<b>11.7</b>
– shareholders' loans	164	<b>184</b>	+20	<b>2.7</b>

Debt ratio

(based on Fully Revalued Assets)	14%	<b>12%</b>
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**FINANCE COST:** Of these loans, the bank interest expenses amounted to HK\$11.7 million (six months ended 30th June, 2011: HK\$6.4 million), the shareholders loans interest expenses amounted to HK\$2.7 million (six months ended 30th June, 2011: HK\$0.8 million). The mandatory convertible bond matured on 13th April, 2011, no interest expenses on mandatory convertible bond during the period (six months ended 30th June, 2011: HK\$0.7 million) were paid.

Out of these interests totally paid, HK\$8.5 million (six months ended 30th June, 2011: HK\$4.2 million) was capitalized and **HK\$5.9 million** (six months ended 30th June, 2011: **HK\$3.7 million**) reflected in the expenses account.

- Regarding the **CASH FLOW** of the Group for the period, the gross income was HK\$223 million (six months ended 30th June, 2011: HK\$170 million) with operating expenses of HK\$88 million (six months ended 30th June, 2011: HK\$71 million), interests paid of HK\$12 million (six months ended 30th June, 2011: HK\$18 million) and repayment of bank loans of HK\$7 million (six months ended 30th June, 2011: HK\$2 million), the **positive cash flow was therefore HK\$116 million** (six months ended 30th June, 2011: HK\$79 million) which was spent on various construction expenses and acquisition of property plant and equipment.

The Group's bank borrowings carry interest at floating rates and are mainly denominated in Hong Kong dollar. Accordingly, the exchange risk of the Group is minimal. During the period under review, there was about 18% increase in the Group's staffing level compared to 30th June, 2011. Remuneration and benefit were set with reference to the market.

## FUTURE PROSPECTS

- For the period under review, the investment properties such as Shun Ho Tower, 633 King's Road and shops in Ramada Hotel Kowloon, Ramada Hong Kong Hotel and Best Western Hotel Taipa, Macau remained almost fully letted. It is expected that the rental revenue from these properties will have modest increase in 2012 .

As at the date of this announcement, the leasing of the grade A office building at 633 King's Road achieved HK\$71 million (excluding rates and management fee) per annum. The management envisages the office building will have modest rental increase in 2012 as most leases are due for renewal.

For the period under review, there was no significant property being disposed of. The houses at Gold Coast, New Territories are already available for leasing and rental income.

For the period under review, the turnover for the five hotels was amounted to HK\$165 million, increased by 43%.

Name of Hotel	Avg Room Rates		Change
	Jan to Jun	Jan to Jun	
	2011 HK\$	2012 HK\$	
Ramada Hotel Kowloon	915	992	+8%
Ramada Hong Kong Hotel	787	854	+9%
Best Western Hotel Causeway Bay	725	877	+21%
Best Western Hotel Taipa, Macau	561	654	+17%
Magnificent International Hotel, Shanghai	345	338	-2%

The Best Western Hotel Causeway Bay achieved remarkable performance, the nearly full occupancies will significantly increase future hotel revenues.

Best Western Hotel Harbour View commenced operation since 21st July, 2012, its nearly full occupancy performance will contribute to the Group's hotel revenue for the second half of the year.



In the coming year, it is envisaged that the hotel business would be improving due to the continuous increase of inbound tourists and devaluation of Hong Kong dollar against Renminbi. The leisure travelling continues to improve due to continuous increase of inbound tour from global interests in Asia and implementation of the CEPA and further relaxation of mainlanders to travel freely. The management of the hotels will endeavour to maintain the high occupancy but will focus on obtaining higher room rates.

The hotel turnover from 1st July to 27th August, 2012 of the Group's six hotels amounted to HK\$72 million, representing 30% improvement compared with 2011.

	Ramada Hotel Kowloon		Ramada Hong Kong Hotel		Best Western Hotel Causeway Bay		Best Western Hotel Taipa, Macau		Magnificent International Hotel, Shanghai		Best Western Hotel Harbour View		Improvement Compared with 2011
	Avg Room Occupancy	Avg Room Rate	Avg Room Occupancy	Avg Room Rate	Avg Room Occupancy	Avg Room Rate	Avg Room Occupancy	Avg Room Rate	Avg Room Occupancy	Avg Room Rate	Avg Room Occupancy	Avg Room Rate	
2012	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	
Jul	99	975	97	829	98	872	97	651	91	326	84	785	+15%
1-27 Aug	99	1,223	98	965	99	994	99	707	92	324	99	859	+44%
	HK\$13,276,000		HK\$16,871,000		HK\$13,840,000		HK\$10,457,000		HK\$3,430,000		HK\$13,767,000		

With the positive cash flow surplus of HK\$116 million for the six months ended 30th June, 2012, the forecasted increase of rental incomes and steady hotel operations will ensure stronger future annual cash flow surplus which will help to ease the construction costs required to build the new hotels that will increase the incomes and value of the Group.

It is the intention of the Group to build a portfolio of 3-4 stars hotels with significant market shares in Hong Kong. The expected annual operating return on these hotels will exceed 10% on development cost and real estate capital gain potential of 50%. The Board believes these opportunities are readily available. The current six hotels owned by the Group offer about 1,690 rooms and the hotel development sites in Sheung Wan and Tsimshatsui will add an additional 610 rooms. The number of hotel rooms will soon be about 2,300 rooms to become a leading hotel room supplier in Hong Kong. Such strategy has and will continue to increase the value and recurring income of the Group substantially.

### **Best Western Grand Hotel No. 23 Austin Avenue, Tsimshatsui Hotel Development**

The 397 rooms hotel development in the excellent shopping location in Tsimshatsui. The occupation permit was issued in August 2012. Operation commencement is expected in late 2012.

### **No. 338 Queen's Road West Hotel Development**

A 214 serviced apartments hotel development was approved to be built. Foundation construction is well under way. Approval has been obtained to increase the plot ratio from 12 to 13.2 with no premium payment required. The construction of the Western MTR Line will improve future value and business of this property significantly.

**LOOKING AHEAD**, the management expects 2012 will be a outstandingly improved year for hotel operation. The hotels occupancy remain high because of the increasing leisure travelling from the PRC and their further visa relaxation and devaluation of Hong Kong dollar against Renminbi. The hotels room rates will increase due to the return of higher yield commercial travellers. Thus, the management expects higher yield commercial travellers and prospects of further multiple visa relaxation in China and rapid middle class population growth in China will result in room rates and revenue increment. The improving hotel business will help to increase the Group's overall turnover.

The management is most pleased with the commencement of operation of the 258 rooms Best Western Hotel Causeway Bay and its immediate remarkable nearly full occupancies since July 2011 and its additional contribution has assisted increase Group hotels revenue by 43% from January to June this year.

The 432 rooms Best Western Hotel Harbour View has commenced operation since 21st July this year and has since enjoyed nearly full occupancy. The additional revenue of the new Best Western Hotel Harbour View has assisted the Group August hotel revenue to increase by 44%. The significant 432 rooms Best Western Hotel Harbour View will surely make significant improvement to the Group's hotel revenue in the years to come.

The 397 rooms Best Western Grand Hotel, Tsimshatsui to be completed this year will undoubtedly make further substantial contribution to the Group's hotel revenue.

Thus 2012, 2013 and onwards will be the **HARVESTING YEARS** for Magnificent Estates Limited after many years of development of the new hotels.

The management will take best advantage of the improving rental incomes of the commercial buildings and shops, strong growth of the hotels revenue, low interest rate environment, competitive Hong Kong dollar, inflation and low 12% debt ratio to enhance the Group's incomes and values with the aim to increase future dividend policy.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the period.

## **CORPORATE GOVERNANCE**

### **(a) Compliance with the Code on Corporate Governance Practices and Code on Corporate Governance**

During the six months ended 30th June, 2012, the Company has complied with all the code provisions set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") (Code on Corporate Governance Practices) (effective until 31st March, 2012) and Corporate Governance Code (effective from 1st April, 2012) with the exception of the following deviations:

*Code Provision A.2.1: chairman and chief executive should not be performed by the same individual*

The Company does not have separate appointments for Chairman and Chief Executive Officer. Mr. William Cheng Kai Man holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person enables the Company to have a stable and consistent leadership. It also facilitates the planning and execution of the Company's strategy and is hence, for the interests of the Company and its shareholders.

*Code Provision A.4.1: non-executive directors should be appointed for a specific term.*

All directors of the Company (including executive or non-executive directors) are not appointed for a fixed term. The Articles of Association of the Company stipulate that every director (including executive or non-executive directors) shall retire and be re-elected at least once every three years. Therefore, the Company has adopted adequate measures to ensure the corporate governance of the Company complies with the same level to that required under the Code on Corporate Governance Practices and the Corporate Governance Code.

*Code Provision A.5.2: the nomination committee should perform the duties set out in paragraphs (a) to (d)*

The terms of reference of the nomination committee adopted by the Company are in compliance with the code provision A.5.2 except that it is not the duty of the nomination committee to select individuals nominated for directorships. The nomination committee comprises a majority of independent non-executive directors who are not involved in the daily operation of the Company and may not have sufficient knowledge of industry practice. Such duty should be performed by the board.

*Code Provision A.6.7: independent non-executive directors and non-executive directors should attend general meetings*

Madam Lui Fung Mei Yee, the non-executive director, was unable to attend the annual general meeting of the Company held on 18th June, 2012 due to other business engagement.

*Code Provision B.1.2: the remuneration committee's terms of reference should include, as a minimum, paragraphs (a) to (h)*

The terms of reference of the remuneration committee adopted by the Company are in compliance with the code provision B.1.2 except that it is not the duties of the remuneration committee to approve the management's remuneration proposals, compensation payable to executive directors and senior management for any loss or termination of office or appointment and compensation arrangements relating to dismissal or removal of directors for misconduct. The remuneration committee comprises a majority of independent non-executive directors who are not involved in the daily operation of the Company and may not have sufficient knowledge of industry practice. Such duties should be performed by the board.

**(b) Compliance with the Model Code**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code during the period under review.

## **REVIEW BY THE AUDIT COMMITTEE**

The audit committee has reviewed the unaudited financial results of the Group for the six months ended 30th June, 2012.

By Order of the Board

**William CHENG Kai Man**  
*Chairman*

Hong Kong, 28th August, 2012

*As at the date hereof, the Board comprises six Directors, of which two are Executive Directors, namely Mr. William Cheng Kai Man and, Mr. Albert Hui Wing Ho; one is Non-executive Director, Madam Mabel Lui Fung Mei Yee; and three are Independent Non-executive Directors, namely Mr. Vincent Kwok Chi Sun, Mr. Chan Kim Fai and Mr. Hui Kin Hing.*