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# MAGNIFICENT ESTATES LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 201)

## 2014 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, 2014 attributable to owners of the Company amounted to HK\$748,171,000 (six months ended 30th June, 2013: HK\$338,136,000). 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 Profit or Loss and Other Comprehensive Income

For the six months ended 30th June, 2014

	NOTES	Six months ended	
		30.6.2014 HK\$'000 (unaudited)	30.6.2013 HK\$'000 (unaudited)
Revenue	3	322,043	322,994
Cost of sales		(2,117)	(2,052)
Other service costs		(117,644)	(111,966)
Depreciation of property, plant and equipment and release of prepaid lease payments for land		<u>(31,237)</u>	<u>(32,748)</u>
Gross profit		171,045	176,228
Increase in fair value of investment properties		1,900	207,600
Other income and gains		12,708	9,379
Gain on disposal of subsidiaries		620,478	-
Administrative expenses			
- Depreciation		(1,533)	(1,535)
- Others		(12,864)	(11,931)
		(14,397)	(13,466)
Other expenses		(6,840)	(6,869)
Finance costs	5	<u>(5,680)</u>	<u>(11,686)</u>
Profit before taxation		779,214	361,186
Income tax expense	6	<u>(29,485)</u>	<u>(22,554)</u>
Profit for the period	7	<u>749,729</u>	<u>338,632</u>

**Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
(Continued)

For the six months ended 30th June, 2014

		<b>Six months ended</b>	
	NOTES	<b>30.6.2014</b> <i>HK\$'000</i> <b>(unaudited)</b>	30.6.2013 <i>HK\$'000</i> (unaudited)
<b>Other comprehensive income (expense)</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Exchange differences arising on translation of foreign operations		(2,431)	1,055
Fair value gain (loss) on available-for-sale investments		<u>9,676</u>	<u>(3,922)</u>
Other comprehensive income (expense) for the period		<u>7,245</u>	<u>(2,867)</u>
Total comprehensive income for the period		<u>756,974</u>	<u>335,765</u>
Profit for the period attributable to:			
Owners of the Company		748,171	338,136
Non-controlling interests		<u>1,558</u>	<u>496</u>
		<u>749,729</u>	<u>338,632</u>
Total comprehensive income attributable to:			
Owners of the Company		755,416	335,269
Non-controlling interests		<u>1,558</u>	<u>496</u>
		<u>756,974</u>	<u>335,765</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic	9	<u>8.36</u>	<u>3.78</u>

**Condensed Consolidated Statement of Financial Position**  
At 30th June, 2014

	NOTES	As at 30.6.2014 HK\$'000 (unaudited)	As at 31.12.2013 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment		2,350,295	2,381,561
Prepaid lease payments for land		33,775	35,014
Investment properties		3,066,000	3,064,000
Properties under development		327,495	263,276
Available-for-sale investments		<u>232,491</u>	<u>217,186</u>
		<b>6,010,056</b>	<b>5,961,037</b>
<b>Current assets</b>			
Inventories		859	826
Prepaid lease payments for land		898	922
Trade and other receivables	10	13,458	23,855
Other deposits and prepayments		7,733	12,124
Bank balances and cash		<u>1,131,908</u>	<u>314,280</u>
		<b>1,154,856</b>	<b>352,007</b>
Assets classified as held for sale		<u>-</u>	<u>290,560</u>
		<b>1,154,856</b>	<b>642,567</b>
<b>Current liabilities</b>			
Trade and other payables and accruals	11	72,848	31,177
Rental and other deposits received		8,625	18,804
Advance from immediate holding company		104,984	76,557
Advance from an intermediate holding company		5,370	5,973
Advance from ultimate holding company		414	405
Advance from a fellow subsidiary		-	4,745
Tax liabilities		36,149	18,525
Bank loans		<u>650,449</u>	<u>676,325</u>
		<b>878,839</b>	<b>832,511</b>
Liabilities associated with assets classified as held for sale		<u>-</u>	<u>202,030</u>
		<b>878,839</b>	<b>1,034,541</b>
<b>Net current assets (liabilities)</b>		<u><b>276,017</b></u>	<u><b>(391,974)</b></u>
<b>Total assets less current liabilities</b>		<u><b>6,286,073</b></u>	<u><b>5,569,063</b></u>
<b>Capital and reserves</b>			
Share capital		841,926	89,471
Reserves		<u>5,152,479</u>	<u>5,200,964</u>
Equity attributable to owners of the Company		<b>5,994,405</b>	<b>5,290,435</b>
Non-controlling interests		<u>146,097</u>	<u>144,539</u>
		<b>6,140,502</b>	<b>5,434,974</b>
<b>Non-current liabilities</b>			
Rental deposits received		30,575	25,762
Deferred tax liabilities		<u>114,996</u>	<u>108,327</u>
		<b>145,571</b>	<b>134,089</b>
		<u><b>6,286,073</b></u>	<u><b>5,569,063</b></u>

Notes:

## 1. BASIS OF PREPARATION

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

## 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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2013.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non- Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) - Int 21	Levies

The application of the new or revised HKFRSs in the current interim period has had no material effect on the amounts reported 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:

	<b>Six months ended</b>	
	<b>30.6.2014</b>	30.6.2013
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(unaudited)
Income from operation of hotels	<b>264,322</b>	271,308
Income from property rental	<b><u>57,721</u></b>	<u>51,686</u>
	<b><u>322,043</u></b>	<u>322,994</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 (Note a)
4. Hospitality services - Magnificent International Hotel, Shanghai
5. Hospitality services - Best Western Hotel Causeway Bay
6. Hospitality services - Best Western Hotel Harbour View
7. Hospitality services - Best Western Grand Hotel
8. Property investment - 633 King's Road
9. Property investment - Shun Ho Tower
10. Property investment - Shops
11. Securities investment and trading
12. Property development for hotel - 338 Queen's Road West

Note:

- (a) The Group has disposed of the holding companies that hold Best Western Hotel Taipa, Macau during the six months ended 30th June, 2014.

Information regarding the above segments is reported below.

#### 4. SEGMENT INFORMATION (Continued)

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	
	30.6.2014 HK\$'000 (unaudited)	30.6.2013 HK\$'000 (unaudited)	30.6.2014 HK\$'000 (unaudited)	30.6.2013 HK\$'000 (unaudited)
Hospitality services	<b>264,322</b>	271,308	<b>113,650</b>	124,773
- Ramada Hotel Kowloon	<b>37,658</b>	36,764	<b>17,436</b>	16,496
- Ramada Hong Kong Hotel	<b>45,906</b>	45,337	<b>22,072</b>	23,333
- Best Western Hotel Taipa, Macau	<b>14,258</b>	29,731	<b>7,038</b>	14,925
- Magnificent International Hotel, Shanghai	<b>9,715</b>	8,429	<b>879</b>	178
- Best Western Hotel Causeway Bay	<b>40,543</b>	38,722	<b>16,848</b>	16,132
- Best Western Hotel Harbour View	<b>52,888</b>	52,635	<b>25,482</b>	28,971
- Best Western Grand Hotel	<b>63,354</b>	59,690	<b>23,895</b>	24,738
Property investment	<b>57,721</b>	51,686	<b>59,295</b>	259,055
- 633 King's Road	<b>42,715</b>	35,882	<b>52,508</b>	195,724
- Shun Ho Tower	<b>10,032</b>	9,701	<b>9,813</b>	9,629
- Shops	<b>4,974</b>	6,103	<b>(3,026)</b>	53,702
Securities investment and trading	-	-	-	-
Property development for hotel - 338 Queen's Road West	-	-	-	-
	<b><u>322,043</u></b>	<b><u>322,994</u></b>	<b><u>172,945</u></b>	<b><u>383,828</u></b>
Other income and gains			<b>12,708</b>	9,379
Gain on disposal of subsidiaries			<b>620,478</b>	-
Central administration costs and directors' emoluments			<b>(14,397)</b>	(13,466)
Other expenses			<b>(6,840)</b>	(6,869)
Finance costs			<b>(5,680)</b>	(11,686)
Profit before taxation			<b><u>779,214</u></b>	<b><u>361,186</u></b>

## 5. FINANCE COSTS

	<b>Six months ended</b>	
	<b>30.6.2014</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>30.6.2013</b> <i>HK\$'000</i> <b>(unaudited)</b>
Interests on:		
Bank loans wholly repayable within five years	<b>5,344</b>	10,717
Advance from immediate holding company wholly repayable within five years	<b>1,288</b>	2,011
Advance from an intermediate holding company wholly repayable within five years	<b>143</b>	61
Advance from ultimate holding company wholly repayable within five years	<u><b>9</b></u>	<u>685</u>
	<b>6,784</b>	13,474
Less: amounts capitalised in properties under development	<u><b>(1,104)</b></u>	<u>(1,788)</u>
	<u><b>5,680</b></u>	<u>11,686</u>

## 6. INCOME TAX EXPENSE

	<b>Six months ended</b>	
	<b>30.6.2014</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>30.6.2013</b> <i>HK\$'000</i> <b>(unaudited)</b>
The taxation charge comprises:		
Current tax		
Hong Kong	<b>22,070</b>	19,435
The People's Republic of China ("PRC")	<b>126</b>	-
Other jurisdiction	<u><b>715</b></u>	<u>1,519</u>
	<b>22,911</b>	20,954
Overprovision in prior years		
Hong Kong	-	(3,160)
Deferred tax		
Current period	<u><b>6,574</b></u>	<u>4,760</u>
	<u><b>29,485</b></u>	<u>22,554</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, 2014 (six months ended 30th June, 2013: 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

	<b>Six months ended</b>	
	<b>30.6.2014</b>	30.6.2013
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Release of prepaid lease payments for land	<b>449</b>	800
Depreciation of property, plant and equipment	<b>32,321</b>	33,483
Interest on bank deposits (included in other income and gains)	<b>(5,153)</b>	(619)
Loss (gain) on disposal of property, plant and equipment	<u><b>23</b></u>	<u>(1,050)</u>

## 8. DIVIDEND

During the six months ended 30th June, 2014, a final dividend of HK0.575 cent per share amounting to HK\$51,446,000 was declared and payable to shareholders for the year ended 31st December, 2013 (six months ended 30th June, 2013: a final dividend of HK0.5 cent per share amounting to HK\$44,735,000 was paid to shareholders for the year ended 31st December, 2012).

The interim dividend in respect of the six months ended 30th June, 2014 of HK0.2 cent per share amounting to HK\$17,894,000 has been declared by the Board (six months ended 30th June, 2013: HK0.2 cent per share amounting to HK\$17,894,000).

## 9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period attributable to the owners of the Company of HK748,171,000 (six months ended 30th June, 2013: HK\$338,136,000) and on 8,947,051,000 shares (six months ended 30th June, 2013: 8,947,051,000 shares) in issue during the period.

Diluted earnings per share for both periods are not presented as there are no potential ordinary shares exist 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 certain customers of the hotels, the Group does not allow any credit period to its customers. The following is an aged analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting period:

	As at 30.6.2014 HK\$'000 (unaudited)	As at 31.12.2013 HK\$'000 (audited)
Not yet due	8,695	20,210
Overdue:		
0 - 30 days	754	2,338
31 - 60 days	87	164
61 - 90 days	<u>-</u>	<u>13</u>
	<u>9,536</u>	<u>22,725</u>
Analysed for reporting as:		
Trade receivables	9,536	22,725
Other receivables	<u>3,922</u>	<u>1,130</u>
	<u>13,458</u>	<u>23,855</u>

## 11. TRADE AND OTHER PAYABLES AND ACCRUALS

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period:

	As at 30.6.2014 HK\$'000 (unaudited)	As at 31.12.2013 HK\$'000 (audited)
0 - 30 days	2,931	2,349
31 - 60 days	173	190
61 - 90 days	<u>19</u>	<u>54</u>
	<u>3,123</u>	<u>2,593</u>
Analysed for reporting as:		
Trade payables	3,123	2,593
Other payables and accruals (Note)	<u>69,725</u>	<u>28,584</u>
	<u>72,848</u>	<u>31,177</u>

Note: Other payables and accruals include construction costs payable of HK\$25,872,000 (31st December, 2013: HK\$7,193,000).

## INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK0.2 cent per share for the six months ended 30th June, 2014 (six months ended 30th June, 2013: HK0.2 cent per share) payable on Friday, 17th July, 2015 to shareholders whose names appear on the register of members of the Company on Friday, 3rd July, 2015. The full year dividend is envisaged to be no less than last year (2013: HK\$0.775 cent per share).

## BOOK CLOSURE

The register of members will be closed from Monday, 29th June, 2015 to Friday, 3rd July, 2015, 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, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. Friday, 26th June, 2015.

## 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 after tax** of the Group for the six months ended 30th June, 2014 attributable to owners of the Company amounted to HK\$748,171,000 (six months ended 30th June, 2013: HK\$338,136,000), increased by 121%. ( See Note a)

	Six months ended		Change
	30.6.2013 <i>HK\$'000</i> (unaudited)	<b>30.6.2014</b> <b><i>HK\$'000</i></b> <b>(unaudited)</b>	
Revaluation profit of investment properties	207,600	<b>1,900</b>	-99%
Income from operation of hotels	114,564	<b>109,051</b>	-5%
Properties rental income	49,978	<b>56,314</b>	+13%
Other income	<u>2,510</u>	<u><b>5,868</b></u>	+134%
	374,652	<b>173,133</b>	-54%
Administrative and other expenses	(13,466)	<b>(14,397)</b>	+7%
Gain on disposal of subsidiaries	-	<b>620,478</b>	N/A
Income tax expense	<u>(22,554)</u>	<u><b>(29,485)</b></u>	+31%
Profit after taxation	338,632	<b>749,729</b>	+121%
Non-controlling interests	<u>(496)</u>	<u><b>(1,558)</b></u>	+214%
Profit after taxation and non-controlling interests	338,136	<b>748,171</b>	+121%
			(Note a)
Less: Revaluation profit of investment properties	(207,600)	<b>(1,900)</b>	
Add: Properties depreciation and release of prepaid lease payments for land	<u>34,283</u>	<u><b>32,770</b></u>	
Net profit after tax before revaluation of investment properties	164,819	<b>779,041</b>	+373%
			(Note b)

The **net profit after tax** before revaluation of investment properties of the Group for the six months ended 30th June, 2014 was HK\$779 million (six months ended 30th June, 2013: HK\$165 million), increased by 373%. (See Note b)

Matters that reduced operating profit after tax for the period:

	<i>HK\$ million</i>
1) Loss of Macau hotel after tax profit for the period	7
2) Income tax expense increase	
Mainly due to no tax write back compared with last year	3
Deferred tax amount increase	2
Profit tax increase	<u>2</u>
	<b>14</b>

As at 30th June, 2014, the net assets excluding non-controlling interests before revaluation on all asset properties and before deferred tax of the Group amounted to HK\$6,109 million (31st December, 2013: HK\$5,399 million), the net asset value per ordinary share is HK\$0.68 (31st December, 2013: HK\$0.60).

As at 30th June, 2014, the **net assets excluding non-controlling interests after revaluation on all asset properties** but before deferred tax of the Group amounted to **HK\$12,172 million** (31st December, 2013: HK\$12,070 million), the **adjusted net asset value per ordinary share is HK\$1.36** (31st December, 2013: HK\$1.35). All the asset properties of the Group are valued by DTZ Debenham Tie Leung Limited, a well-known valuer worldwide.

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 six hotels including: (1) Ramada Hotel Kowloon, (2) Ramada Hong Kong Hotel, (3) Best Western Hotel Causeway Bay, (4) Best Western Hotel Harbour View, (5) Best Western Grand Hotel and (6) Magnificent International Hotel, Shanghai, with 1,823 rooms together with the new Grand City Hotel at Queen's Road West under development, the Group will have 2,037 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:

	31.12.2011	31.12.2012	31.12.2013	<b>30.06.2014</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Adjusted Shareholders' Fund	7,715	10,461	12,070	<b>12,172</b>
Adjusted Net Asset Value Per Ordinary Share	HK\$0.86	HK\$1.17	HK\$1.35	<b>HK\$1.36</b>

## PERFORMANCES

- For the six months ended 30th June, 2014, 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:

### Revenue

	Six months ended		Change
	30.6.2013 HK\$'000 (unaudited)	30.6.2014 HK\$'000 (unaudited)	
Income from operation of hotels	271,308	264,322	-3%
Properties rental income	51,686	57,721	+12% (Note)
Other income	9,379	12,708	+35%
<b>Total</b>	332,373	334,751	+1%

Note: Non-controlling interest will be deducted in the condensed consolidated statement of profit or loss and other comprehensive income.

The total income for the Group increased by 1% from HK\$332 million to HK\$335 million for the same period compared with last year.

The income from operation of hotels decreased by 3% to HK\$264 million (six months ended 30th June, 2013 : HK\$271million). The decrease was due to the disposal of Macau hotel since March 2014. **Revenue of other hotels increased by 4% for the period.**

	Ramada Hotel Kowloon		Ramada Hong Kong Hotel		Best Western Hotel Causeway Bay		Best Western Hotel Harbour View		Best Western Grand Hotel		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\$	Avg Room Occupancy %	Avg Room Rate HK\$	Avg Room Occupancy %	Avg Room Rate HK\$
<b>2014</b>														
Jan	98	1,003	98	757	98	873	99	621	99	887	96	647	55	327
Feb	99	1,098	99	811	99	926	100	632	99	918	97	859	76	331
Mar	99	1,065	98	872	99	982	99	759	99	937	98	555	82	343
Apr	98	1,018	98	851	98	904	98	775	99	922	N/A	N/A	90	357
May	99	824	98	684	98	746	98	579	97	757	N/A	N/A	87	353
Jun	99	860	98	683	99	703	99	577	99	730	N/A	N/A	88	332
<b>Total</b>		<b>HK\$37,658,000</b>		<b>HK\$45,906,000</b>		<b>HK\$40,543,000</b>		<b>HK\$52,888,000</b>		<b>HK\$63,354,000</b>		<b>HK\$14,258,000</b>		<b>HK\$9,715,000</b>
Jan to Jun 2013 Total		HK\$36,764,000		HK\$45,337,000		HK\$38,722,000		HK\$52,635,000		HK\$59,690,000		HK\$13,546,000 (Jan to 20th Mar, 2013)		HK\$8,429,000
Change		+2%		+1%		+5%		0%		+6%		+5%		+15%
<b>Jan to Jun 2014 EBITDA Margin (Based on Revenue)</b>		<b>51%</b>		<b>51%</b>		<b>56%</b>		<b>55%</b>		<b>62%</b>		<b>47%</b>		<b>25%</b>

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 (up to 20th March, 2014) amounted to HK\$58 million (six months ended 30th June, 2013: HK\$52 million). At the date of this announcement, 633 King's Road provided an annual rental income of HK\$90 million (excluding rates and management fee incomes).

The properties rental income was analysed as follows:

	<b>Six months ended</b>		Change
	30.6.2013 <i>HK\$'000</i> (unaudited)	<b>30.6.2014</b> <b><i>HK\$'000</i></b> <b>(unaudited)</b>	
633 King's Road	35,882	<b>42,715</b>	+19%
Shun Ho Tower	9,701	<b>10,032</b>	+3% ( <i>Note</i> )
Shops	<u>6,103</u>	<u><b>4,974</b></u>	-18%
<b>Total</b>	51,686	<b>57,721</b>	+12%

*Note: Non-controlling interest will be deducted in the condensed consolidated statement of profit or loss and other comprehensive income.*

**OTHER INCOME** amounted to HK\$12.7 million (six months ended 30th June 2013: HK\$9.4 million) which was mostly property management fee incomes of HK\$7.7 million (six months ended 30th June 2013: HK\$7.7 million) with related expenses of HK\$6.8 million (six months ended 30th June 2013: HK\$6.9 million) and interest income HK\$5 million (six months ended 30th June 2013: HK\$0.6 million) from cash deposits.

	<b>Six months ended</b>		Change
	30.6.2013 <i>HK\$'000</i> (unaudited)	<b>30.6.2014</b> <b><i>HK\$'000</i></b> <b>(unaudited)</b>	
Revenue	322,994	<b>322,043</b>	-0.3%
Cost of sales	(2,052)	<b>(2,117)</b>	
Other service costs	(111,966)	<b>(117,644)</b>	+5%
Depreciation of property, plant and equipment and release of prepaid lease payments for land	<u>(32,748)</u>	<b><u>(31,237)</u></b>	-5%
Gross profit	176,228	<b>171,045</b>	
Increase in fair value of investment properties	207,600	<b>1,900</b>	
Other income and gain	9,379	<b>12,708</b>	
Gain on disposal of subsidiaries	-	<b>620,478</b>	
Administrative expenses			
- Depreciation	(1,535)	<b>(1,533)</b>	
- Others	(11,931)	<b>(12,864)</b>	
	(13,466)	<b>(14,397)</b>	
Other expenses	(6,869)	<b>(6,840)</b>	
Finance costs	<u>(11,686)</u>	<b><u>(5,680)</u></b>	-51%
Profit before taxation	361,186	<b>779,214</b>	
Income tax expense	<u>(22,554)</u>	<b><u>(29,485)</u></b>	
Profit for the period	338,632	<b>749,729</b>	

On 20th December, 2013, the Group entered into an agreement with an independent third party to dispose of subsidiaries holding interest in Best Western Hotel Taipa, Macau at the consideration of HK\$900 million, the disposal of which was completed on 20th March, 2014. **The disposal incurred in a reportable earning of approximately HK\$620 million for the first half of 2014.**

## **COSTS**

- **OVERALL SERVICE COSTS** of the Group for the period was HK\$119.8 million (six months ended 30th June, 2013: HK\$114 million), of which HK\$119.5 million (six months ended 30th June, 2013: HK\$113.7 million) was for the hotel operations including food and beverage and costs of sales and HK\$0.3 million (six months ended 30th June, 2013: HK\$0.3 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 three years of the rental period.

The approximate **OPERATING COST** including food and beverage and costs of sales for each operating hotel were as follows:

Name of Hotel	Six months ended		Change
	30.6.2013 <i>HK\$ million</i> <i>per month</i>	30.6.2014 <i>HK\$ million</i> <i>per month</i>	
Ramada Hotel Kowloon	2.84	<b>2.84</b>	-
Ramada Hong Kong Hotel	3.37	<b>3.67</b>	+9%
Best Western Hotel Causeway Bay	2.76	<b>2.94</b>	+7%
Magnificent International Hotel, Shanghai	1.12	<b>1.22</b>	+9%
Best Western Hotel Harbour View	3.36	<b>3.98</b>	+18%*
Best Western Grand Hotel	<u>3.32</u>	<u><b>4.06</b></u>	+22%*
<b>Average expenses per month</b>	<u>16.77</u>	<u><b>18.71</b></u>	+12%
<b>Subtotal amount for the period</b>	100.62	<b>112.26</b>	+12%
Best Western Hotel Taipa, Macau	13.08	<b>7.24</b> <small>(up to 20th March, 2014)</small>	-45%
<b>Total amount for the period</b>	113.70	<b>119.50</b>	+5%

\* The increase of hotel operation costs for the newly opened Best Western Hotel Harbour View and Best Western Grand Hotel were mostly due to normalised salary, bonus, government rate, sales commission compared with unstable first year.

During the period, the **ADMINISTRATIVE EXPENSES** excluding depreciation was HK\$12.9 million (six months ended 30th June, 2013: HK\$11.9 million) for corporate management office including directors' fees, salaries for executive staff and employees, rental, marketing expenses and office expenses.

**OTHER EXPENSES** were property management expenses amounted to HK\$6.9 million (six months ended 30th June, 2013: HK\$6.9 million).

The accounting standards require hotel properties of the Group to provide **DEPRECIATION** which amounted to HK\$31.2 million (six months ended 30th June, 2013: HK\$32.7 million) for the period.

#### DEPRECIATION OF HOTEL PROPERTIES

Name of Hotel	Six months ended		Change <i>HK\$ million</i>
	30.6.2013 <i>HK\$ million</i>	30.6.2014 <i>HK\$ million</i>	
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	-	-1.7
Magnificent International Hotel, Shanghai	1.5	<b>1.5</b>	-
Best Western Hotel Causeway Bay	5.9	<b>6.0</b>	+0.1
Best Western Hotel Harbour View	3.5	<b>3.5</b>	-
Best Western Grand Hotel	<u>15.0</u>	<u><b>15.1</b></u>	+0.1
<b>Total amount for the period</b>	32.7	<b>31.2</b>	-1.5

## FUNDING

- As at 30th June, 2014, the **OVERALL DEBTS** of the Group were HK\$761 million (31st December, 2013: HK\$759 million), of which HK\$650 million (31st December, 2013: HK\$676 million) was bank borrowings and HK\$111 million (31st December, 2013: HK\$83 million) was advance from shareholders.

The debt ratio was **6%** (31st December, 2013: 6%) in term of overall debts of HK\$761 million (31st December, 2013: HK\$759 million) against the fully revalued assets of the Group amounted to HK\$13,112 million (31st December, 2013: HK\$13,162 million).

The gearing ratio was approximately 13% (31st December, 2013: 14%) in term of overall debts of HK\$761 million (31st December, 2013: HK\$759 million) against funds employed of HK\$5,994 million (31st December, 2013: HK\$5,290 million).

The overall debts were analysed as follows:

	For the year ended 31.12.2013 <i>HK\$ million</i>	For the six months ended 30.06.2014 <i>HK\$ million</i>	Change <i>HK\$ million</i>	Interest Paid For the six months ended 30.06.2014 <i>HK\$ million</i>
Bank loans	676	<b>650</b>	-26	<b>5.3</b>
Shareholders' loans	<u>83</u>	<u><b>111</b></u>	<u>+28</u>	<u><b>1.5</b></u>
Overall debts	759	<b>761</b>	+2	<b>6.8</b>
Debt ratio (Based on Fully Revalued Assets)	6%	<b>6%</b>		

**FINANCE COST:** Of these loans, the total interest expenses amounted to HK\$5.3 million (six months ended 30th June, 2013: HK\$10.7 million), the shareholders' loans interest expenses amounted to HK\$1.5 million (six months ended 30th June, 2013: HK\$2.8 million).

Out of these interests totally paid, HK\$1.1 million (six months ended 30th June, 2013: HK\$1.8 million) was capitalized and HK\$5.7 million (six months ended 30th June, 2013: HK\$11.7 million) reflected in the expenses account. The decrease of interest expense amount was due to the repayment of bank loans amounted to HK\$385 million during the second half of 2013.

- Regarding the **CASH FLOW** of the Group for the period, the gross income of the Group was HK\$335 million (six months ended 30th June, 2013: HK\$332 million) with operating expenses of HK\$139 million (six months ended 30th June, 2013: HK\$133 million), interests paid out of the Group of HK\$5 million (six months ended 30th June, 2013: HK\$11 million), and net repayment of bank loans of HK\$26 million (six months ended 30th June, 2013: HK\$13 million), various construction expenses and acquisition of property, plant and equipment and available-for-sale investments of HK\$53 million (six months ended 30th June, 2013: HK\$31 million). With the HK\$720 million cash inflow from the disposal for Best Western Hotel Taipa, Macau, a **positive cash flow amounted to HK\$832 million** (six months ended 30th June, 2013: HK\$144 million) is in cash reserve of the Group.



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, the Group's staffing level is about 15% less than that of 31st December, 2013 due to the disposal of Best Western Hotel Taipa, Macau. 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 (up to 20th March, 2014) remained fully letted.

As at the date of this announcement, the leasing of the grade A office building at 633 King's Road achieved HK\$90 million (excluding rates and management fee incomes) per annum. The management envisages the office building will have modest rental increase in 2014 as most leases are due for renewal.

For the period under review, the travel industry have suffered lesser spending willingness from our largest PRC guests segment, probably due to the low economic cycle being encountered in the PRC. However, visitors coming to Hong Kong continue to grow by 12.5% from January to June 2014 according to the Hong Kong Tourist Board. The turnover for the seven group hotels was amounted to HK\$264,322,000, decreased by 3%. The minor decrease of revenue is due to the disposal of Best Western Hotel Taipa, Macau in March 2014. Existing hotels turnover for the period increased by 4%.

Name of Hotel	Avg Room Rates		Change
	Jan to Jun 2013	Jan to Jun 2014	
	HK\$	HK\$	
Ramada Hotel Kowloon	971	<b>976</b>	+1%
Ramada Hong Kong Hotel	792	<b>776</b>	-2%
Best Western Hotel Causeway Bay	830	<b>855</b>	+3%
Best Western Hotel Harbour View	693	<b>657</b>	-5%
Best Western Grand Hotel	861	<b>861</b>	-
Best Western Hotel Taipa, Macau (up to 20th March, 2014)	638	<b>718</b>	+13%
Magnificent International Hotel, Shanghai	339	<b>342</b>	+1%

The management of the hotels will endeavour to maintain the high occupancy and will also focus on obtaining higher room rates.

The turnover of the Group's six hotels from 1st July to 13th August, 2014 amounted to HK\$65,274,000, representing 3% improvement for the same period compared with 2013.

	Ramada Hotel Kowloon		Ramada Hong Kong Hotel		Best Western Hotel Causeway Bay		Best Western Hotel Harbour View		Best Western Grand Hotel		Magnificent International Hotel, Shanghai		Change
	Avg Room	Avg Room	Avg Room	Avg Room	Avg Room	Avg Room	Avg Room	Avg Room	Avg Room	Avg Room	Avg Room	Avg Room	
	Occupancy %	Rate HK\$	Occupancy %	Rate HK\$	Occupancy %	Rate HK\$	Occupancy %	Rate HK\$	Occupancy %	Rate HK\$	Occupancy %	Rate HK\$	
<b>2014</b>													
Jul	99	990	99	814	100	855	100	723	99	870	95	345	+6%
Aug 1-13	100	1,050	99	875	99	959	100	785	100	978	98	359	
<b>Total</b>	<b>HK\$9,448,000</b>		<b>HK\$12,162,000</b>		<b>HK\$10,243,000</b>		<b>HK\$14,524,000</b>		<b>HK\$15,988,000</b>		<b>HK\$2,909,000</b>		<b>+3%</b>

- The management will try the best endeavour to complete the construction of the new hotel to increase future earnings base and value for the Group.

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

The 214 rooms hotel development is named the Grand City Hotel and is expected to have occupation permit in December 2014. The connection of the Western MTR Line will improve future value and business of this property significantly.

## **LOOKING AHEAD**

Magnificent Estates has a magnificent portfolio of well performing recurring income portfolio of commercial and hotel properties with cash deposit in excess of HK\$1 billion.

**The management is most excited with the connection of the MTR Western line near end of 2014 which will significantly benefit our three hotels with about 1,000 rooms in terms of occupancies, room rates and hotel values.**

However, both commercial and hotel segments are showing strong signs of difficulties with more supplies and lesser demand. The disposed Macau hotel has the effect of reducing operating profit by HK\$37 million per year. Stable operating profit growth is therefore at risk from market conditions and Macau hotel disposal. The new Grand City Hotel will contribute about the same operating profit per year to replenish the profit reduced by the disposed Macau hotel. The management is most eager to make use of our cash deposit to increase operating profit by another HK\$50 million per annum through the acquisition of commercial or hotel investment/developments which may require in excess of our cash deposit.

## **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 Corporate Governance Code**

During the period ended 30th June, 2014, the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited 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 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 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.

## **REVIEW BY THE AUDIT COMMITTEE**

The audit committee has reviewed the unaudited financial results of the Group for the six months ended 30th June, 2014.

By Order of the Board

**William CHENG Kai Man**  
*Chairman*

Hong Kong, 14th August, 2014

*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.*