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MAGNIFICENT HOTEL INVESTMENTS LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 201)

2016 INTERIM RESULTS

RESULTS

The board of directors (the “Board”) of Magnificent Hotel Investments Limited (the “Company”) announces that the **net profit after tax attributable to owners of the Company** before revaluation gain of investment properties and depreciation of property, plant and equipment and release of prepaid lease payments for land for the six months ended 30th June, 2016 was HK\$60.5 million (six months ended 30th June, 2015: HK\$118.1 million).

	Six months ended	
	30.6.2016	30.6.2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit after taxation and non-controlling interests	23,031	84,958
Add: Properties depreciation and release of prepaid lease payments for land	<u>37,461</u>	<u>33,149</u>
Net profit after tax before properties depreciation and release of prepaid lease payment for land	60,492	118,107

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, 2016

		Six months ended	
	NOTES	30.6.2016 <i>HK\$'000</i> (unaudited)	30.6.2015 <i>HK\$'000</i> (unaudited)
Continuing operations			
Revenue	3	207,762	207,183
Cost of sales		(2,065)	(2,022)
Other service costs		(124,472)	(112,105)
Depreciation of property, plant and equipment and release of prepaid lease payments for land		<u>(34,609)</u>	<u>(31,867)</u>
Gross profit		46,616	61,189
Other income and gains		871	9,115
Administrative expenses			
- Depreciation		(2,852)	(835)
- Others		(12,128)	(12,224)
		(14,980)	(13,059)
Other expenses		-	(1,862)
Finance costs	5	<u>(3,846)</u>	<u>(4,726)</u>
Profit before taxation		28,661	50,657
Income tax expense	6	<u>(5,630)</u>	<u>(10,968)</u>
Profit for the period from continuing operations	7	<u>23,031</u>	<u>39,689</u>
Discontinued operations			
Profit for period from discontinued operations		<u>-</u>	<u>46,956</u>
Profit for the period		<u>23,031</u>	<u>86,645</u>

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

For the six months ended 30th June, 2016

		Six months ended	
	NOTE	30.6.2016 <i>HK\$'000</i> (unaudited)	30.6.2015 <i>HK\$'000</i> (unaudited)
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		(30,406)	(346)
Fair value (loss) gain on available-for-sale investments		<u>(37,430)</u>	<u>169,348</u>
Other comprehensive (expense) income for the period		<u>(67,836)</u>	<u>169,002</u>
Total comprehensive (expense) income for the period		<u>(44,805)</u>	<u>255,647</u>
Profit for the period attributable to owners of the Company			
- from continuing operations		23,031	39,689
- from discontinued operations		<u>-</u>	<u>45,269</u>
Profit for the period attributable to owners of the Company		23,031	84,958
Profit for the period from discontinued operations attributable to non-controlling interests of the Company		<u>-</u>	<u>1,687</u>
		<u>23,031</u>	<u>86,645</u>
Total comprehensive (expenses) income attributable to:			
Owners of the Company		(44,805)	253,960
Non-controlling interests		<u>-</u>	<u>1,687</u>
		<u>(44,805)</u>	<u>255,647</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
From continuing and discontinued operations			
Basic	9	<u>0.26</u>	<u>0.95</u>
From continuing operations			
Basic	9	<u>0.26</u>	<u>0.45</u>

Condensed Consolidated Statement of Financial Position
At 30th June, 2016

	NOTES	30.6.2016 <i>HK\$'000</i> (unaudited)	31.12.2015 <i>HK\$'000</i> (audited)
Non-Current Assets			
Property, plant and equipment		2,739,567	2,667,279
Prepaid lease payments for land		29,793	30,765
Investment properties		211,000	260,000
Properties under development		50,365	102,981
Available-for-sale investments		447,968	485,398
Payments for acquisition of an investment property		<u>769,797</u>	<u>-</u>
		<u>4,248,490</u>	<u>3,546,423</u>
Current Assets			
Inventories		1,029	946
Prepaid lease payments for land		837	852
Trade and other receivables	10	9,909	18,664
Other deposits and prepayments		8,101	8,068
Pledged bank deposit		173,250	-
Bank balances and cash		<u>245,070</u>	<u>778,062</u>
		<u>438,196</u>	<u>806,592</u>
Current Liabilities			
Trade and other payables and accruals	11	53,105	32,647
Rental and other deposits received		7,631	8,868
Advance from immediate holding company		84,299	12,721
Advance from ultimate holding company		447	438
Tax liabilities		10,986	4,953
Bank loans		<u>729,814</u>	<u>401,570</u>
		<u>886,282</u>	<u>461,197</u>
Net Current (Liabilities) Assets		<u>(448,086)</u>	<u>345,395</u>
Total Assets less Current Liabilities		<u>3,800,404</u>	<u>3,891,818</u>
Capital and Reserves			
Share capital		841,926	841,926
Reserves		<u>2,864,404</u>	<u>2,953,944</u>
Total equity		<u>3,706,330</u>	<u>3,795,870</u>
Non-Current Liabilities			
Rental deposits received		1,547	2,654
Deferred tax liabilities		<u>92,527</u>	<u>93,294</u>
		<u>94,074</u>	<u>95,948</u>
		<u>3,800,404</u>	<u>3,891,818</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.

These condensed consolidated financial statements have been prepared on a going concern basis because the ultimate holding company has agreed to provide adequate funds to enable the Company to meet in full its financial obligations as they fall due for the foreseeable future.

The financial information relating to the year ended 31st December, 2015 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31st December, 2015 to the Register of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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.

Except as describes below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2015.

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 that are relevant for the preparation of the Group’s condensed consolidation financial statements:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle

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, property rental and dividend income, and is analysed as follows:

	Six months ended	
	30.6.2016	30.6.2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Income from operation of hotels	198,557	203,054
Income from property rental - shops	2,313	3,893
Dividend income	<u>6,892</u>	<u>236</u>
	<u>207,762</u>	<u>207,183</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 - Best Western Plus Hotel Kowloon
2. Hospitality services - Best Western Plus Hotel Hong Kong
3. Hospitality services - Magnificent International Hotel, Shanghai
4. Hospitality services - Best Western Hotel Causeway Bay
5. Hospitality services - Best Western Hotel Harbour View
6. Hospitality services - Best Western Grand Hotel
7. Hospitality services - Grand City Hotel (note)
8. Property investment - Shops
9. Securities investment
10. Property development for hotel (note)

Note: The hotel development was completed in August 2015 and accordingly transferred to the segment of "Hospitality Services - Grand City Hotel".

On 25th March, 2015, the Company entered into the sale and purchase agreement with its immediate holding company, Shun Ho Property Investments Limited (formerly known as Shun Ho Technology Holdings Limited), for the disposal of 100% interest in Houston Venture Limited and its subsidiary, Tennyland Limited, and 68% interest in Trans-Profit Limited (collectively referred to as "Disposed Subsidiaries") together with its shareholder's loan due to the Company (the "Disposal"). Upon completion of the Disposal, the Disposed Subsidiaries ceased to be subsidiaries of the Company. The Disposed Subsidiaries are principally engaged in property investment in commercial buildings, namely, 633 King's Road and Shun Ho Tower. Accordingly, the segment information reported below does not include financial information in respect of the discontinued operations related to the Disposed Subsidiaries.

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:

Continuing operations

	Segment revenue Six months ended		Segment profit Six months ended	
	30.6.2016 HK\$'000 (unaudited)	30.6.2015 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)	30.6.2015 HK\$'000 (unaudited)
Hospitality services	198,557	203,054	37,411	57,060
- Best Western Plus Hotel Kowloon	25,600	28,955	3,643	7,739
- Best Western Plus Hotel Hong Kong	32,924	38,434	7,935	13,306
- Magnificent International Hotel, Shanghai	10,378	10,292	1,729	1,417
- Best Western Hotel Causeway Bay	26,155	31,048	2,654	7,245
- Best Western Hotel Harbour View	38,148	44,971	10,710	17,146
- Best Western Grand Hotel	46,080	49,354	7,445	10,207
- Grand City Hotel	19,272	-	3,295	-
Property investment				
- Shops	2,313	3,893	2,313	3,893
Securities investment	6,892	236	6,892	236
	<u>207,762</u>	<u>207,183</u>	<u>46,616</u>	<u>61,189</u>
Other income and gains			871	9,115
Central administration costs and directors' emoluments			(14,980)	(13,059)
Other expenses			-	(1,862)
Finance costs			<u>(3,846)</u>	<u>(4,726)</u>
Profit before taxation			<u>28,661</u>	<u>50,657</u>

5. FINANCE COSTS

	Six months ended	
	30.6.2016 HK\$'000 (unaudited)	30.6.2015 HK\$'000 (unaudited)
Continuing operations		
Interests on:		
Bank loans	3,733	3,968
Advance from immediate holding company	104	1,861
Advance from ultimate holding company	<u>9</u>	<u>9</u>
	3,846	5,838
Less: amounts capitalised in properties under development	<u>-</u>	<u>(1,112)</u>
	<u>3,846</u>	<u>4,726</u>

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2016 HK\$'000 (unaudited)	30.6.2015 HK\$'000 (unaudited)
Continuing operations		
The taxation charge comprises:		
Current tax		
Hong Kong	5,977	9,767
The People's Republic of China ("PRC")	<u>360</u>	<u>271</u>
	6,337	10,038
Underprovision in prior years		
Hong Kong	<u>60</u>	<u>-</u>
	6,397	10,038
Deferred tax	<u>(767)</u>	<u>930</u>
	<u>5,630</u>	<u>10,968</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, 2016 (six months ended 30th June, 2015: 16.5%).

Taxation arising in the PRC 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	
	30.6.2016	30.6.2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Profit for the period has been arrived at after charging (crediting):		
Release of prepaid lease payments for land	418	451
Depreciation of property, plant and equipment	37,043	32,251
Interest on bank deposits (included in other income and gains)	(975)	(4,779)
Loss (gain) on disposal of property, plant and equipment (included in other income and gains)	<u>104</u>	<u>(4,040)</u>

8. DIVIDEND

During the six months ended 30th June, 2016, a final dividend of HK0.5 cent per share amounting to HK\$44,735,000 was declared and payable to shareholders for the year ended 31st December, 2015 (six months ended 30th June, 2015: a final dividend of HK0.575 cent per share amounting to HK\$51,446,000 was paid to shareholders for the year ended 31st December, 2014).

The interim dividend in respect of the six months ended 30th June, 2016 of HK0.077 cent per share amounting to HK\$6,889,000 has been declared by the Board (six months ended 30th June, 2015: HK0.2 cent per share amounting to HK\$17,894,000).

9. EARNINGS PER SHARE

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

From continuing and discontinued operations

	Six months ended	
	30.6.2016 HK\$'000 (unaudited)	30.6.2015 HK\$'000 (unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	<u>23,031</u>	<u>84,958</u>
	2016 '000	2015 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>8,947,051</u>	<u>8,947,051</u>

From continuing operations

	Six months ended	
	30.6.2016 HK\$'000 (unaudited)	30.6.2015 HK\$'000 (unaudited)
Earnings figures are calculated as follows:		
Earnings for the period attributable to owners of the Company	23,031	84,958
Less: Profit for the period from discontinued operations attributable to owners of the Company	<u>-</u>	<u>(45,269)</u>
Earnings for the purposes of basic earnings per share from continuing operations	<u>23,031</u>	<u>39,689</u>

From discontinued operations

For the six months ended 30th June, 2015, basic earnings per share for the discontinued operations is HK0.5 cent per share based on the profit for the period from the discontinued operations of HK\$45 million.

Diluted earnings per share for both periods are not presented as there are no potential ordinary shares exist during both periods.

10. TRADE AND OTHER RECEIVABLES

	As at 30.6.2016 HK\$'000 (unaudited)	As at 31.12.2015 HK\$'000 (audited)
Analysed for reporting as:		
Trade receivables	6,048	17,127
Other receivables	<u>3,861</u>	<u>1,537</u>
	<u><u>9,909</u></u>	<u><u>18,664</u></u>

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 30.6.2016 HK\$'000 (unaudited)	As at 31.12.2015 HK\$'000 (audited)
Not yet due	5,806	16,239
Overdue:		
0 - 30 days	204	855
31 - 60 days	38	23
61 - 90 days	<u>-</u>	<u>10</u>
	<u><u>6,048</u></u>	<u><u>17,127</u></u>

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	As at 30.6.2016 HK\$'000 (unaudited)	As at 31.12.2015 HK\$'000 (audited)
Analysed for reporting as:		
Trade payables	3,593	3,703
Dividend payable	18,105	5,173
Other payables and accruals (note)	<u>31,407</u>	<u>23,771</u>
	<u><u>53,105</u></u>	<u><u>32,647</u></u>

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 30.6.2016 HK\$'000 (unaudited)	As at 31.12.2015 HK\$'000 (audited)
0 - 30 days	3,027	2,953
31 - 60 days	545	722
61 - 90 days	<u>21</u>	<u>28</u>
	<u><u>3,593</u></u>	<u><u>3,703</u></u>

Note: Other payables and accruals include construction costs payable of HK\$4,604,000 (31st December, 2015: HK\$5,182,000).

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK0.077 cent per share for the six months ended 30th June, 2016 (six months ended 30th June, 2015: HK0.2 cent per share) payable on Tuesday, 18th July, 2017 to shareholders whose names appear on the register of members of the Company on Wednesday, 5th July, 2017. **The dividend payout ratio is 30%.**

BOOK CLOSURE

The register of members will be closed from Thursday, 29th June, 2017 to Wednesday, 5th July, 2017, 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. on Wednesday, 28th June, 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

The **net profit after tax** attributable to owners of the Company before revaluation gain of investment properties and depreciation of property, plant and equipment and release of prepaid lease payments for land for the six months ended 30th June, 2016 was HK\$60.5 million (six months ended 30th June, 2015: HK\$118.1 million), decreased by 49%. (*See Note a below*)

During the period under review, the Group continued with its hotel investments and operation.

From 17th July, 2015, the Company completed the reorganisation proposal to focus on hotel investment and development business thereafter and the disposal of commercial investment properties business, namely 633 King's Road and Shun Ho Tower. Therefore, the properties rental income decreased by 96%.

Grand City Hotel in Hong Kong commenced business in August 2015 and contributed hotel income to the Group. During the period, the hotel income of Grand City Hotel was HK\$19,272,000. At the same time, the operating cost and the depreciation increased HK\$13 million and HK\$2.9 million, respectively.

	Six months ended		Change
	30.6.2015 <i>HK\$'000</i> (unaudited)	30.6.2016 <i>HK\$'000</i> (unaudited)	
Profit from operation of hotels	52,334	33,565	-36%
Properties rental income	59,169	2,313	-96%
Income from securities investments	236	6,892	+2,820%
Other income	<u>8,086</u>	<u>871</u>	-89%
	119,825	43,641	-64%
Administrative and other expenses	(13,684)	(14,980)	+9%
Income tax expense	<u>(19,496)</u>	<u>(5,630)</u>	-71%
Profit after taxation	86,645	23,031	-73%
Non-controlling interests	<u>(1,687)</u>	<u>-</u>	-100%
Profit after taxation and non-controlling interests	84,958	23,031	-73%
Add: Properties depreciation and release of prepaid lease payments for land	<u>33,149</u>	<u>37,461</u>	+13%
Net profit after tax before properties depreciation and release of prepaid lease payment for land	118,107	60,492	-49%

(Note a)

Overall net profit declined by of HK\$58 million and reasons for its reduction:

	<i>HK\$ million</i>
1) No rental income from commercial buildings	46
2) Decrease of hotel profit	<u>12</u>
	<u><u>58</u></u>

PERFORMANCES

- For the six months ended 30th June, 2016, the **GROUP'S INCOME** was mostly derived from the aggregate of income from operation of hotels, which was analysed as follows:

Income

	Six months ended		Change	Reasoning
	30.6.2015 <i>HK\$'000</i> (unaudited)	30.6.2016 <i>HK\$'000</i> (unaudited)		
Income from operation of hotels	203,054	198,557	-2%	Due to continued decline of the PRC visitors and their spending power
Properties rental income	61,801	2,313	-96%	Due to Group reorganisaiton
Dividend income	236	6,892	+2,820%	From high yield stock investment
Other income	<u>16,767</u>	<u>871</u>	-95%	No more property management fee income from disposed rental properties
Total	281,858	208,633	-26%	

The total income for the Group decreased by 26% from HK\$282 million to HK\$209 million for the same period compared with last year.

The income from operation of hotels slightly decreased by 2% to HK\$199 million (six months ended 30th June, 2015: HK\$203 million).

	Best Western Plus Hotel Hong Kong		Best Western Plus Hotel Kowloon		Best Western Grand Hotel		Best Western Hotel Harbour View		Best Western Hotel Causeway Bay		Grand City Hotel		Magnificent International Hotel, Shanghai		Change
	Avg Room	Avg Rate	Avg Room	Avg Rate	Avg Room	Avg Rate	Avg Room	Avg Rate	Avg Room	Avg Rate	Avg Room	Avg Rate	Avg Room	Avg Rate	
	Occupancy %	HK\$	Occupancy %	HK\$	Occupancy %	HK\$	Occupancy %	HK\$	Occupancy %	HK\$	Occupancy %	HK\$	Occupancy %	HK\$	
2016															
Jan	99	633	99	800	99	756	99	539	99	633	99	548	74	305	
Feb	99	554	99	652	99	839	100	509	99	537	99	513	58	334	
Mar	99	494	99	617	99	676	100	417	99	527	99	453	90	365	
Apr	99	615	100	754	99	629	100	510	99	676	99	567	90	404	
May	99	466	99	534	100	540	99	381	99	428	99	411	83	357	
Jun	99	486	100	553	99	525	100	394	99	451	100	425	88	348	
Total	HK\$32,924,000		HK\$25,600,000		HK\$46,080,000		HK\$38,148,000		HK\$26,155,000		HK\$19,272,000		HK\$10,378,000		
Jan to Jun 2015 Total	HK\$38,434,000		HK\$28,955,000		HK\$49,354,000		HK\$44,971,000		HK\$31,048,000		HK\$-		HK\$10,292,000		
Change		-14%		-12%		-7%		-15%		-16%		N/A		+1%	-2%
Jan to Jun 2016 EBITDA Margin (Based on Revenue)		32%		33%		49%		37%		33%		32%		30%	

For the period under review, the hotel industry has suffered noticeable decline of overnight PRC visitors and their spending power. According to Hong Kong Tourism Board, total overnight visitors declined by 2.1% (six months ended 30th June, 2015: declined by 3.8%) (12,427,158 visitors) during January to June 2016, the visitors segments were analysed as follows:

	No. of Visitors	%
Mainland China	8,004,698	-6.7
Other Asia markets	2,597,301	+10.9
Long haul markets	1,527,077	+3.4
New markets	298,082	-0.5

COSTS

SERVICE COST of the Group for the period was HK\$124 million (six months ended 30th June, 2015: HK\$112 million) representing hotel operations. Its HK\$12 million increase was due to the HK\$13 million service cost of the newly operated Grand City Hotel and **cost reduction from other Group hotels**.

Name of Hotel	Six months ended		Change
	30.6.2015 <i>HK\$ million per month</i>	30.6.2016 <i>HK\$ million per month</i>	
Best Western Plus Hotel Kowloon	2.88	2.99	+4 %
Best Western Plus Hotel Hong Kong	3.89	3.86	-1%
Best Western Grand Hotel	4.00	3.92	-2%
Best Western Hotel Harbour View	4.05	3.99	-1%
Best Western Hotel Causeway Bay	2.95	2.93	-1%
Grand City Hotel	-	2.18	N/A
Magnificent International Hotel, Shanghai	1.23	1.22	-1%

Cost of sale of HK\$2 million (six months ended 30th June, 2015: HK\$2 million) was from cost of food and beverage

During the period, the **ADMINISTRATIVE EXPENSES** excluding depreciation was HK\$12.1 million (six months ended 30th June, 2015: HK\$12.4 million), **representing cost reduction** for corporate management office including directors' fees, salaries for executive staff and employees, rental, marketing expenses and office expenses.

The accounting standards require hotel properties of the Group to provide **DEPRECIATION** which amounted to HK\$34.6 million (six months ended 30th June, 2015: HK\$31.9 million) for the period. The increase was due to Grand City Hotel which was classified as property, plant and equipment after its commencement of business.

DEPRECIATION OF HOTEL PROPERTIES

Name of Hotel	Six months ended		Change <i>HK\$ million</i>
	30.6.2015 <i>HK\$ million</i>	30.6.2016 <i>HK\$ million</i>	
Best Western Plus Hotel Kowloon	3.9	4.0	+0.1
Best Western Plus Hotel Hong Kong	1.8	1.8	-
Best Western Grand Hotel	15.1	15.1	-
Best Western Hotel Harbour View	3.5	3.5	-
Best Western Hotel Causeway Bay	6.1	5.9	-0.2
Grand City Hotel	-	2.9	+2.9
Magnificent International Hotel, Shanghai	<u>1.5</u>	<u>1.4</u>	-0.1
Total amount for the period	31.9	34.6	

FUNDING

- As at 30th June, 2016, the **OVERALL DEBTS** of the Group were HK\$814 million (31st December, 2015: HK\$415 million), of which HK\$729 million (31st December, 2015: HK\$402 million) was bank borrowings and HK\$85 million (31st December, 2015: HK\$13 million) was advance from shareholders. The increase in overall debt was due to the deposits paid for the acquisition of Royal Scot Hotel in London in June 2016, the balance of which was financed by additional bank loan.

The debt ratio was **8%** (31st December, 2015: 4%) in terms of overall debts of HK\$814 million (31st December, 2015: HK\$415 million) against the fully revalued assets of the Group amounted to HK\$9,653 million (31st December, 2015: HK\$9,864 million).

The gearing ratio was approximately 22% (31st December, 2015: 11%) in terms of overall debts of HK\$814 million (31st December, 2015: HK\$415 million) against funds employed of HK\$3,706 million (31st December, 2015: HK\$3,796 million).

The overall debts were analysed as follows:

	For the year ended 31.12.2015	For the six months ended 30.06.2016	Change HK\$ million	Interest Paid for the six months ended	
	HK\$ million	HK\$ million		30.06.2015 HK\$ million	30.06.2016 HK\$ million
Bank loans	402	729	+327	4.9	3.8
Shareholders' loans	<u>13</u>	<u>85</u>	<u>+72</u>	<u>3.2</u>	<u>0.1</u>
Overall debts	415	814	+399	8.1	3.9
Debt ratio (Based on Fully Revalued Assets)	4%	8%			

FINANCE COST: Of these loans, the bank loan interest expenses amounted to HK\$3.8 million (six months ended 30th June, 2015: HK\$4.9 million), the shareholders' loans interest expenses amounted to HK\$0.1 million (six months ended 30th June, 2015: HK\$3.2 million). The decrease of interest expense was due to decrease in the bank loans arose from commercial buildings after the group-reorganisation.

Out of these interests totally paid, no amount was capitalised during the period (six months ended 30th June, 2015: HK\$1.1 million) and HK\$3.9 million (six months ended 30th June, 2015: HK\$7.0 million) reflected in the expenses account.

Cash flow of the Group

	For the six months ended 30.06.2015 <i>HK\$ million</i>	For the six months ended 30.06.2016 <i>HK\$ million</i>
Gross income	282	209
Less:		
Operating expenses	(136)	(139)
Interests expenses	(5)	(4)
Various construction expenses	(19)	(2)
Acquisition of property, plant and equipment	(23)	(8)
Cash Inflow	99	56
Less:		
Acquisition of an investment property	-	(798)
Net (repayments) advances of bank loans	(29)	328
Cash inflow/(outflow)	70	(414)

The Group's bank borrowings carry interest at floating rates and are denominated in Hong Kong dollar and Pound Sterling, the exchange risk of the Group is minimal. During the period under review, the Group's staffing level did not have material change in compared with that of 31st December, 2015. Remuneration and benefit were set with reference to the market.

LOOKING AHEAD

The **corporate strategy** of Magnificent Hotel is to acquire hotel development opportunities in prime locations at low costs with potential to create substantial capital gain from redevelopment or extension.

During the period, the Group acquired the freehold property of Royal Scot Hotel situate at 100 King's Cross Road, London (the "Property") for the consideration of £70,300,000 (equivalent to approximately HK\$731,000,000). The current net income is £3,137,487 (equivalent to approximately HK\$32,629,865) per annum.

The Property comprises 408 rooms and is equipped with a restaurant and café and a car park providing approximately 40 car parking spaces. The gross internal basis is approximately 133,532 sq.ft. The acquisition cost is equivalent to £172,300 (equivalent to approximately HK\$1,791,920) per room and £526 (equivalent to approximately HK\$5,470) per sq.ft. gross internal basis. The management is confident that the total floor area of the Property can be further increased at a later stage through extensions and/or redevelopment.

The management believes the above acquisition of a substantial landmark stable hotel at very prime location at a very low cost with sound recurring income plus substantial future extension and redevelopment potential ensuring capital gain potential.

Looking ahead, the local hotel industry will continue to suffer a decline of overnight PRC visitors, less spending power, increase of supply of new hotel rooms, competing room rate and occupancy.

The Company has successfully controlled costs by achieving reductions of hotel service costs and office administration costs during the period.

The Group with 8 hotels has total assets value of approximately HK\$10 billion and will help the Group in a well position to take advantage of this adjusting market condition for future hotel investment/development opportunities.

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, 2016, 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

Except two non-executive directors, 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, 2016.

By Order of the Board

William CHENG Kai Man
Chairman

Hong Kong, 30th August, 2016

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.