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MAGNIFICENT HOTEL INVESTMENTS LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 201)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2017

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 exchange adjustment, revaluation gain of investment properties and depreciation of land, property and equipment for the year ended 31st December, 2017 was HK\$202 million (2016: HK\$176 million). The audited consolidated results of the Company and its subsidiaries (together the “Group”) for the year, together with comparative figures for the previous year, are as follows:

| | 2017 | 2016 |
|---|----------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit after taxation | 152,174 | 133,224 |
| Add: Exchange adjustment (<i>note</i>) | 21,094 | (29,118) |
| Less: Revaluation gain of investment properties | (50,200) | (5,225) |
| Add: Properties depreciation and release of prepaid lease payments for land | <u>79,121</u> | <u>76,923</u> |
| Net profit after tax before exchange adjustment, revaluation gain of investment properties and depreciation for land, property and equipment | 202,189 | 175,804 |

Note:

The exchange adjustment was made mainly because at the time of borrowing sterling for the acquisition of Royal Scot Hotel in London as at 30th June, 2016, the exchange rate as at that time was HK\$10.43: £1. Eventual loan repayment is expected also in sterling, therefore, there was no future exchange rate risk exposure. However, due to accounting policy, adjustment had to be made regarding fluctuation of exchange rate even loan repayment is expected in sterling. At the year end of 2016, a profit of HK\$29 million resulted/announced due to depreciation of sterling from HK\$10.43: £1 to HK\$9.55: £1. Subsequently as at 30th June, 2017, sterling rebounded from HK\$9.55: £1 to HK\$10.155: £1 leading to exchange adjustment of HK\$21 million.

Consolidated Statement of Profit or Loss

For the year ended 31st December, 2017

| | <i>NOTES</i> | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| Revenue | 3 | 522,432 | 476,333 |
| Cost of sales | | (4,593) | (4,219) |
| Other service costs | | (244,557) | (241,381) |
| Depreciation of property, plant and equipment and release of prepaid lease payments for land | | <u>(72,628)</u> | <u>(71,209)</u> |
| Gross profit | | 200,654 | 159,524 |
| Increase in fair value of investment properties | | 50,200 | 5,225 |
| Other income and expenses and gains and losses | | (18,120) | 31,284 |
| Administrative expenses | | (38,989) | (33,683) |
| - Depreciation | | (6,493) | (5,714) |
| - Others | | (32,496) | (27,969) |
| Finance costs | 5 | <u>(11,085)</u> | <u>(9,123)</u> |
| Profit before taxation | 6 | 182,660 | 153,227 |
| Income tax expense | 7 | <u>(30,486)</u> | <u>(20,003)</u> |
| Profit for the year attributable to owners of the Company | | <u>152,174</u> | <u>133,224</u> |
| | | <i>HK cents</i> | <i>HK cents</i> |
| Earnings per share | 9 | | |
| Basic | | <u>1.70</u> | <u>1.49</u> |
| Diluted | | <u>N/A</u> | <u>N/A</u> |

Consolidated Statement of Total Comprehensive Income
For the year ended 31st December, 2017

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|--------------------------------|-----------------------------|
| Profit for the year | <u>152,174</u> | <u>133,224</u> |
| Other comprehensive income (expense) | | |
| Items that may be subsequently reclassified to profit or loss | | |
| Exchange differences arising on translation of foreign operations | 75,068 | (101,339) |
| Fair value gain (loss) on available-for-sale investments | 21,299 | (5,574) |
| Securities revaluation reserve released upon disposal of available-for-sale investments | <u>-</u> | <u>(564)</u> |
| Other comprehensive income (expense) for the year | <u>96,367</u> | <u>(107,477)</u> |
| Total comprehensive income for the year attributable to owners of the Company | <u><u>248,541</u></u> | <u><u>25,747</u></u> |

Consolidated Statement of Financial Position

At 31st December, 2017

| | <i>NOTES</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------|-------------------------|-------------------------|
| Non-Current Assets | | | |
| Property, plant and equipment | | 2,650,413 | 2,699,402 |
| Prepaid lease payments for land | | 29,528 | 27,898 |
| Investment properties | | 1,055,800 | 927,250 |
| Properties under development | | 74,157 | 56,369 |
| Available-for-sale investments | | <u>377,370</u> | <u>356,071</u> |
| | | <u>4,187,268</u> | <u>4,066,990</u> |
| Current Assets | | | |
| Inventories | | 1,093 | 1,067 |
| Prepaid lease payments for land | | 862 | 795 |
| Trade and other receivables | 10 | 21,327 | 20,237 |
| Other deposits and prepayments | | 6,884 | 7,943 |
| Pledged bank deposit | | - | 173,265 |
| Bank balances and cash | | <u>608,762</u> | <u>331,074</u> |
| | | <u>638,928</u> | <u>534,381</u> |
| Current Liabilities | | | |
| Trade and other payables and accruals | 11 | 23,806 | 27,570 |
| Rental and other deposits received | | 5,736 | 17,072 |
| Amount due to immediate holding company | | 4,898 | 4,898 |
| Amount due to ultimate holding company | | 1,501 | - |
| Tax liabilities | | 11,155 | 3,385 |
| Bank loans | | <u>404,094</u> | <u>683,786</u> |
| | | <u>451,190</u> | <u>736,711</u> |
| Net Current Assets (Liabilities) | | <u>187,738</u> | <u>(202,330)</u> |
| Total Assets less Current Liabilities | | <u>4,375,006</u> | <u>3,864,660</u> |
| Capital and Reserves | | | |
| Share capital | | 841,926 | 841,926 |
| Reserves | | <u>3,119,347</u> | <u>2,928,067</u> |
| Total Equity | | <u>3,961,273</u> | <u>3,769,993</u> |
| Non-Current Liabilities | | | |
| Bank loans | | 317,646 | - |
| Rental deposits received | | 2,090 | 1,880 |
| Deferred tax liabilities | | <u>93,997</u> | <u>92,787</u> |
| | | <u>413,733</u> | <u>94,667</u> |
| | | <u>4,375,006</u> | <u>3,864,660</u> |

Notes:

1. GENERAL

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Companies Ordinance.

The 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.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The financial information relating to the years ended 31st December, 2017 and 2016 included in this preliminary announcement of annual results 2017 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31st December, 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31st December, 2017 in due course.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year.

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

| | |
|------------------------|--|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Asset for Unrealised Losses |
| Amendments to HKFRS 12 | As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle |

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these 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:

| | 2017 | 2016 |
|---------------------------------|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Income from operation of hotels | 483,744 | 443,990 |
| Income from property rental | 34,224 | 20,743 |
| Dividend income | <u>4,464</u> | <u>11,600</u> |
| | <u>522,432</u> | <u>476,333</u> |

4. SEGMENT INFORMATION

The Group's operating and reportable segments under HKFRS 8 are therefore 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
8. Property investment - Shops
9. Property investment - Hotel
10. Securities investment

Information regarding the above segments is reported below.

4. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments for both years:

| | Segment revenue | | Segment profit | |
|--|----------------------------|-----------------------|----------------------------|-----------------------|
| | Year ended | | Year ended | |
| | 31 st December, | | 31 st December, | |
| | 2017 | 2016 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hospitality services | 483,744 | 443,990 | 161,966 | 127,181 |
| - Best Western Plus Hotel Kowloon | 62,232 | 57,360 | 14,808 | 12,488 |
| - Best Western Plus Hotel Hong Kong | 81,600 | 73,989 | 35,215 | 27,564 |
| - Magnificent International Hotel, Shanghai | 22,857 | 21,455 | 6,741 | 4,667 |
| - Best Western Hotel Causeway Bay | 64,922 | 59,319 | 19,384 | 13,905 |
| - Best Western Hotel Harbour View | 97,048 | 87,199 | 41,028 | 32,494 |
| - Best Western Grand Hotel | 106,054 | 100,671 | 28,629 | 24,272 |
| - Grand City Hotel | 49,031 | 43,997 | 16,161 | 11,791 |
| Property investment | 34,224 | 20,743 | 84,424 | 25,968 |
| - Shops | 2,724 | 4,346 | 2,724 | 4,346 |
| - Hotel | 31,500 | 16,397 | 81,700 | 21,622 |
| Securities investment | 4,464 | 11,600 | 4,464 | 11,600 |
| | <u>522,432</u> | <u>476,333</u> | <u>250,854</u> | <u>164,749</u> |
| Other income and expenses and gains and losses | | | (18,120) | 31,284 |
| Central administration costs and directors' emoluments | | | (38,989) | (33,683) |
| Finance costs | | | <u>(11,085)</u> | <u>(9,123)</u> |
| Profit before taxation | | | <u>182,660</u> | <u>153,227</u> |

Geographical information

The Group's operations are located in Hong Kong, the People's Republic of China (the "PRC") and the United Kingdom ("the UK").

The following is an analysis of the Group's revenue primarily by geographical markets based on location of assets:

| | 2017 | 2016 |
|-----------|-----------------------|----------------|
| | HK\$'000 | HK\$'000 |
| Hong Kong | 468,075 | 438,481 |
| The PRC | 22,857 | 21,455 |
| The UK | <u>31,500</u> | <u>16,397</u> |
| | <u>522,432</u> | <u>476,333</u> |

5. FINANCE COSTS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Interests on : | | |
| Bank loans | 11,080 | 8,511 |
| Amount due to immediate holding company | 4 | 599 |
| Amount due to ultimate holding company | <u>1</u> | <u>13</u> |
| | <u>11,085</u> | <u>9,123</u> |

6. PROFIT BEFORE TAXATION

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit before taxation from continuing operations has been arrived at after charging (crediting): | | |
| Auditor's remuneration | 2,507 | 2,473 |
| Staff costs including directors' emoluments | 168,414 | 163,097 |
| Depreciation of property, plant and equipment | 78,259 | 76,128 |
| Loss on disposal of property, plant and equipment | 42 | 141 |
| Release of prepaid lease payments for land | 862 | 795 |
| Operating lease rental in respect of rented equipment | 3,726 | 3,731 |
| Gross rental income from investment properties | (34,224) | (20,743) |
| Less: Direct operating expenses incurred for investment properties that generated rental income during the year | <u>-</u> | <u>-</u> |
| | <u>(34,224)</u> | <u>(20,743)</u> |

7. INCOME TAX EXPENSE

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--------------------------------|-------------------------|-------------------------|
| The taxation charge comprises: | | |
| Current tax | | |
| Hong Kong | 23,175 | 19,188 |
| The PRC | 1,605 | 998 |
| The UK | <u>4,650</u> | <u>466</u> |
| | 29,430 | 20,652 |
| Overprovision in prior years | | |
| Hong Kong | <u>(154)</u> | <u>(142)</u> |
| | 29,276 | 20,510 |
| Deferred tax | <u>1,210</u> | <u>(507)</u> |
| | <u><u>30,486</u></u> | <u><u>20,003</u></u> |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years. Taxation arising in other jurisdictions are calculated at the rates prevailing in the relevant jurisdictions.

8. DIVIDENDS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Dividend recognised as distribution during the year: | | |
| Final dividend in respect of the year ended 31 st December, 2016 of HK0.563 cent (2016: Final dividend in respect of the year ended 31 st December, 2015 of HK0.5 cent) per share was paid to shareholders | 50,372 | 44,735 |
| Interim dividend in respect of the six months ended 30 th June, 2017 of HK0.077 cent (2016: Interim dividend in respect of the six months ended 30 th June, 2016 of HK0.077 cent) per share payable to shareholders | <u>6,889</u> | <u>6,889</u> |
| | <u><u>57,261</u></u> | <u><u>51,624</u></u> |

The final dividend in respect of the year ended 31st December, 2017 of HK0.627 cent per share amounting to HK\$56,098,000 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to the owners of the Company of HK\$152,174,000 (2016: HK\$133,224,000) and on 8,947,051,000 shares (2016: 8,947,051,000 shares) in issue during the year.

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

10. TRADE AND OTHER RECEIVABLES

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|-------------------|-------------------------|-------------------------|
| Trade receivables | 19,647 | 18,641 |
| Other receivables | <u>1,680</u> | <u>1,596</u> |
| | <u>21,327</u> | <u>20,237</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 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:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|-------------|-------------------------|-------------------------|
| Not yet due | 18,723 | 17,698 |
| Overdue: | | |
| 0-30 days | 865 | 758 |
| 31-60 days | 57 | 179 |
| 61-90 days | <u>2</u> | <u>6</u> |
| | <u>19,647</u> | <u>18,641</u> |

11. TRADE AND OTHER PAYABLES AND ACCRUALS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------------------------|--------------------------------|-------------------------|
| Trade payables | 3,532 | 3,194 |
| Other payables and accruals (Note) | <u>20,274</u> | <u>24,376</u> |
| | <u>23,806</u> | <u>27,570</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:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------|--------------------------------|-------------------------|
| 0-30 days | 3,289 | 2,291 |
| 31-60 days | 239 | 64 |
| 61-90 days | <u>4</u> | <u>839</u> |
| | <u>3,532</u> | <u>3,194</u> |

Note: As at 31st December, 2017, the other payables and accruals include construction costs payable of HK\$2,502,000 (2016: HK\$644,000).

DIVIDEND

The Board recommends the payment of a final dividend of HK0.627 cent per share for the year ended 31st December, 2017 (2016: HK0.563 cent per share) and will be payable on 28th June, 2018 to shareholders whose names appear on the register of members of the Company on 15th June, 2018. With reference to the announcement of 2017 interim results of the Company dated 29th August, 2017, shareholders are reminded that an interim dividend of HK0.077 cent per share for the six months ended 30th June, 2017 is also payable on 28th June, 2018 to shareholders whose names appear on the register of members of the Company on 15th June, 2018. Therefore, shareholders whose names appear on the register of members of the Company on 15th June, 2018 will receive dividends for a total sum of HK0.704 cent per share (2016: HK0.64 cent per share), increased by 10%. The Company's dividend payout ratio is 51%.

For 2017, the annual dividend to be received by shareholders was equivalent to 3% annual yield of the closing price of the Company's share immediately before the date of results announcement.

BOOK CLOSURE

To ascertain shareholders' eligibility to attend and vote at the Annual General Meeting to be held on Thursday, 24th May, 2018 ("AGM"), the register of members will be closed from Thursday, 17th May, 2018 to Thursday, 24th May, 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, 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, 16th May, 2018.

Subject to the approval of the shareholders at the AGM for the proposed final dividend, the register of members of the Company will be closed from Tuesday, 12th June, 2018 to Friday, 15th June, 2018, both dates inclusive, during which period no transfer of shares of the Company will be registered, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with Company's Share Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 11th June, 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group continued with its hotel investments, leasing, development and operation.

The net profit after tax attributed to owners of the Company before exchange adjustment, revaluation gain of investment properties and depreciation of land, property and equipment for the year ended 31st December, 2017 was HK\$202 million (2016: HK\$176 million), increased by 15%. (See Note a)

| | 2016 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> | Change |
|---|-------------------------|-------------------------|----------------------|
| Revaluation profit of investment properties (<i>Note i</i>) | 5,225 | 50,200 | +861% |
| Profit from operation of hotels | 119,104 | 153,687 | +29% |
| Properties rental income | 19,697 | 31,418 | +60% |
| Income from securities investments | 12,164 | 4,464 | -63% |
| Other income and expenses and gains and losses | <u>1,602</u> | <u>2,974</u> | +86% |
| | 157,792 | 242,743 | +54% |
| Administrative expenses | (33,683) | (38,989) | +16% |
| Exchange adjustment (<i>Note ii</i>) | 29,118 | (21,094) | N/A |
| Income tax expense | <u>(20,003)</u> | <u>(30,486)</u> | +52% |
| Profit after taxation | 133,224 | 152,174 | +14% |
| Less: Revaluation profit of investment properties | (5,225) | (50,200) | +861% |
| Add: Exchange adjustment | (29,118) | 21,094 | N/A |
| Add: Properties depreciation and release of prepaid lease payments for land | <u>76,923</u> | <u>79,121</u> | +3% |
| Net profit after tax before exchange adjustment, revaluation gain and depreciation of land, property and equipment | 175,804 | 202,189 | +15% (Note a) |

Notes:

- i. The professional valuation of the Royal Scot Hotel, London as at 31st December, 2017, indicated an increase of HK \$50,200,000 in value.
- ii. The exchange adjustment was made mainly because at the time of borrowing sterling for the acquisition of Royal Scot Hotel in London as at 30th June, 2016, the exchange rate as at that time was HK\$10.43: £1. Eventual loan repayment is expected also in sterling, therefore, there was no future exchange rate risk exposure. However, due to accounting policy, adjustment had to be made regarding fluctuation of exchange rate even loan repayment is expected in sterling. At the year end of 2016, a profit of HK\$29 million resulted/announced due to depreciation of sterling from HK\$10.43: £1 to HK\$9.55: £1. Subsequently as at 30th June, 2017, sterling rebounded from HK\$9.55: £1 to HK\$10.155: £1 leading to exchange adjustment of HK\$21 million.

Overall net profit increased by of HK\$26 million and reasons for its increment:

| | <i>HK\$ million</i> |
|---|---------------------|
| 1) Property rental income derived from UK hotel property | 8 |
| 2) Increase in hotel profit | 30 |
| 3) Increase in administrative expense | (4) |
| 4) Decrease in dividend from available-for-sale investments | <u>(8)</u> |
| | 26 |

HOTEL PERFORMANCES

The Group presently owns eight hotels, operates seven hotels and lease out one hotel in London. The income from operation of hotels increased by 9% to HK\$484 million (2016: HK\$444 million). Royal Scot Hotel in London was leased to a hotel management company, Travelodge.

| | Best Western Plus Hotel Kowloon | | Best Western Plus Hotel Hong Kong | | Best Western Hotel Causeway Bay | | Best Western Hotel Harbour View | | Best Western Grand Hotel | | Grand City Hotel | | Magnificent International Hotel, Shanghai | | Change % |
|--------------------------------------|---------------------------------|---------------|-----------------------------------|---------------|---------------------------------|---------------|---------------------------------|---------------|--------------------------|----------------|--------------------|---------------|---|---------------|----------|
| | 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 | Avg Room Occupancy | Avg Room Rate | |
| | % | HK\$ | % | HK\$ | % | HK\$ | % | HK\$ | % | HK\$ | % | HK\$ | % | HK\$ | |
| | | | | | | | | | | | | | | | |
| 2017 | | | | | | | | | | | | | | | |
| Jan | 99 | 820 | 100 | 697 | 100 | 680 | 100 | 592 | 99 | 747 | 99 | 612 | 70 | 325 | |
| Feb | 100 | 671 | 100 | 552 | 99 | 531 | 100 | 464 | 100 | 602 | 99 | 508 | 83 | 293 | |
| Mar | 100 | 713 | 100 | 592 | 99 | 605 | 100 | 502 | 99 | 621 | 99 | 536 | 91 | 338 | |
| Apr | 100 | 826 | 100 | 714 | 100 | 717 | 100 | 620 | 99 | 729 | 99 | 631 | 92 | 376 | |
| May | 99 | 610 | 100 | 511 | 100 | 466 | 100 | 426 | 99 | 535 | 99 | 446 | 88 | 369 | |
| Jun | 99 | 599 | 100 | 527 | 100 | 487 | 100 | 434 | 99 | 505 | 99 | 450 | 92 | 343 | |
| Jul | 100 | 673 | 100 | 568 | 100 | 570 | 100 | 489 | 99 | 608 | 99 | 540 | 100 | 383 | |
| Aug | 98 | 734 | 100 | 642 | 99 | 631 | 100 | 564 | 99 | 665 | 99 | 601 | 98 | 382 | |
| Sep | 98 | 704 | 100 | 582 | 100 | 568 | 100 | 504 | 99 | 615 | 99 | 525 | 87 | 335 | |
| Oct | 100 | 1,046 | 100 | 890 | 100 | 936 | 99 | 823 | 99 | 922 | 99 | 860 | 93 | 401 | |
| Nov | 100 | 1,026 | 100 | 874 | 100 | 913 | 100 | 765 | 99 | 905 | 100 | 838 | 96 | 342 | |
| Dec | 100 | 1,038 | 100 | 867 | 100 | 847 | 100 | 766 | 99 | 951 | 100 | 814 | 87 | 309 | |
| pers.Avg/yr | 99 | 790 | 100 | 669 | 100 | 664 | 100 | 580 | 99 | 701 | 99 | 614 | 86 | 342 | |
| 2017 Total HK\$'000 | | 62,232 | | 81,600 | | 64,922 | | 97,048 | | 106,054 | | 49,031 | | 22,857 | |
| Other incomes HK\$'000 | | 204 | | 2,520 | | - | | - | | - | | - | | - | |
| Total income HK\$'000 | | 62,436 | | 84,120 | | 64,922 | | 97,048 | | 106,054 | | 49,031 | | 22,857 | |
| 2016 Total income HK\$'000 | | 59,186 | | 76,509 | | 59,319 | | 87,199 | | 100,671 | | 43,997 | | 21,455 | |
| Increase % | | +5 | | +10 | | +9 | | +11 | | +5 | | +11 | | +7 | +9 |
| Annual expenses HK\$'000 | | (34,757) | | (42,684) | | (34,244) | | (49,714) | | (47,255) | | (27,082) | | (13,414) | |
| Net operating income HK\$'000 | | 27,679 | | 41,436 | | 30,678 | | 47,334 | | 58,799 | | 21,949 | | 9,443 | |

- Average occupancy rate in the Group's Hong Kong hotels was 99%.
- The Group's overall hotel revenue increased by 9%.

The Best Western Plus Hotel Kowloon has completed its renovation and the adding of 40 hotel rooms and is awaiting license to be issued.

During the year, the increase of overnight PRC visitors was 6.7%. According to Hong Kong Tourism Board in 2017, there were 27,884,543 total overnight visitors which increased by 0.5% as compared to 2016, the visitors segments were analysed as follows:

| | No. of Visitors | % |
|--------------------|-----------------|-------|
| Mainland China | 18,526,210 | +6.7 |
| Other Asia markets | 5,693,953 | +4.1 |
| Long haul markets | 3,139,077 | +0.1 |
| New markets | 525,303 | -10.0 |

| | 2016 HK\$'000 | 2017 HK\$'000 | 2017 Segment HK\$'000 | | | | |
|---|------------------|------------------|-----------------------------|----------------|-----------------|--------------------------|-----------------|
| | Total | Total | Hotel | Hotel Shops | Hotel Rental | Securities Investment | Bank/ Others |
| Revenue | 476,333 | 522,432 | 483,744 | 2,724 | 31,500 | 4,464 | - |
| Cost of sales | (4,219) | (4,593) | (4,593) | - | - | - | - |
| Other service costs | <u>(241,381)</u> | <u>(244,557)</u> | <u>(244,557)</u> | - | - | - | - |
| | 230,733 | 273,282 | 234,594 | 2,724 | 31,500 | 4,464 | - |
| Non cash depreciation | (76,923) | (79,121) | (72,628) | - | - | - | (6,493) |
| Other income and expenses and gains and losses | 31,284 | (18,120) | - | - | (21,094) | - | 2,974 |
| Increase in fair value of investment properties | 5,225 | 50,200 | - | - | 50,200 | - | - |
| Finance costs | (9,123) | (11,085) | (8,279) | - | (2,806) | - | - |
| Income tax expense | <u>(15,963)</u> | <u>(27,142)</u> | <u>(22,492)</u> | - | <u>(4,650)</u> | - | - |
| Net profit after tax | 165,233 | 188,014 | 131,195 | 2,724 | 53,150 | 4,464 | (3,519) |
| Overall administrative expenses | (27,969) | (32,496) | | | | | |
| Corporate income tax expenses | <u>(4,040)</u> | <u>(3,344)</u> | | | | | |
| Profit for the year | 133,224 | 152,174 | | | | | |
| Add: Non cash depreciation | 76,923 | 79,121 | | | | | |
| Add: Exchange adjustment | (29,118) | 21,094 | | | | | |
| Less: Increase in fair value of investment properties | <u>(5,225)</u> | <u>(50,200)</u> | | | | | |
| Profit for the year before non cash depreciation and extraordinary items attributable to owners of the Company | 175,804 | 202,189 | 15% | | | | |

COST

- The **SERVICE COSTS** of the Group for the year was HK\$249.1 million (2016: HK\$245.6 million), representing hotel operations. It was increased by 1.4%.

| Name of Hotel | 2016 <i>HK\$ million</i> | 2017 <i>HK\$ million</i> | Change |
|---|-----------------------------|-----------------------------|--------|
| Best Western Plus Hotel Kowloon | 34.4 | 34.7 | +0.9% |
| Best Western Plus Hotel Hong Kong | 42.8 | 42.7 | -0.2% |
| Best Western Grand Hotel | 46.1 | 47.3 | +2.6% |
| Best Western Hotel Harbour View | 47.7 | 49.7 | +4.2% |
| Best Western Hotel Causeway Bay | 33.9 | 34.2 | +0.9% |
| Grand City Hotel | 26.4 | 27.1 | +2.7% |
| Magnificent International Hotel, Shanghai | <u>14.3</u> | <u>13.4</u> | -6.3% |
| Total amount for the year | 245.6 | 249.1 | +1.4% |

Cost of sale of HK\$4.6 million (2016: HK\$4.2 million) was from cost of food and beverage.

During the year, the **ADMINISTRATIVE EXPENSES** excluding depreciation was HK\$32 million (2016: HK\$28 million) representing cost for corporate management office including directors' fees, salaries for executive staff and employees, rental, marketing expenses and office expenses. The increase of the administrative expenses was mainly due to the legal fee incurred for the abandon purchase of Rosswood Hotel Georgia and the legal cost for the arrangement of the loan in sterling.

FUNDING

- At 31st December, 2017, the **OVERALL DEBT** of the Group was HK\$728 million (2016: HK\$689 million), of which HK\$722 million (2016: HK\$684 million) was assets secured bank borrowings and HK\$6 million (2016: HK\$5 million) was advances from shareholders. The increase in overall debt was due to additional bank borrowings incurred which is placed in cash deposit which may be used to repay loan at any time or to be used for future assets acquisition.

The gearing ratio was 18% (2016: 18%) in terms of overall debt of HK\$728 million (2016: HK\$689 million) against funds employed of HK\$3,961 million (2016: HK\$3,770 million).

The debt ratio was 7% (2016: 7%) in terms of overall debt of HK\$728 million (2016: HK\$689 million) against the fully revalued assets of the Group amounted to HK\$11,185 million (2016: HK\$9,826 million).

The overall debts was analysed as follows:

| | 2016 <i>HK\$ million</i> | 2017 <i>HK\$ million</i> | Change <i>HK\$ million</i> | Interest Paid 2017 <i>HK\$ million</i> |
|---|-----------------------------|-----------------------------|-------------------------------|--|
| Bank loans | 684 | 722 | +38 | 10.995 |
| Shareholders' loans | 5 | 6 | +1 | 0.005 |
| Overall debt | 689 | 728 | | 11 |
| Debt ratio (Based on Fully Revalued Assets) | 7% | 7% | | |

- FINANCE COST:** Of these loans, the total interest expenses amounted to HK\$11 million (2016: HK\$9.1 million), the bank loans interest expenses amounted to HK\$10.995 million (2016: HK\$8.5 million) and the shareholders loans interest expenses amounted to HK\$0.005 million (2016: HK\$0.6 million). The bank loan interest increased due to the newly raised bank loan and increase in interest rate during the year.

The Group's bank borrowings carry interest at floating rates and are mainly denominated in Hong Kong dollar and Pound Sterling. Accordingly, the Group exposes to exchange risk and management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. As at 31st December, 2017, the Group's staffing level did not have material change when compared with that of 31st December, 2016. Remuneration and benefit were set with reference to the market.

Cash flow of the Group

| | 2016 <i>HK\$ million</i> | 2017 <i>HK\$ million</i> |
|---|-----------------------------|-----------------------------|
| Gross income | 478 | 522 |
| Less: | | |
| Operating expenses | (274) | (282) |
| Interests expenses | (9) | (11) |
| Dividend paid out | (63) | (57) |
| Net (repayment) borrowing of bank loans | (34) | 25 |
| Acquisition of property, plant and equipment | <u>(8)</u> | <u>(5)</u> |
| Cash Inflow | 90 | 192 |
| Less: | | |
| Acquisition of investment properties, net of new bank loan raised | (461) | - |
| Various construction expenses | (12) | (17) |
| Acquisition of a subsidiary | <u>-</u> | <u>(20)</u> |
| Cash (Outflow) inflow | (383) | 155 |

- The accounting standards require hotel properties of the Group to provide **depreciation** which amounted to HK\$72.6 million (2016: HK\$71.2 million) for the year.

Depreciation of Hotel Properties

| Name of Hotel | 2016 HK\$'000 | 2017 HK\$'000 | Change HK\$'000 |
|---|------------------|------------------|--------------------|
| Best Western Plus Hotel Kowloon | 10,478 | 12,667 | +2,189 |
| Best Western Plus Hotel Hong Kong | 3,644 | 3,701 | +57 |
| Best Western Grand Hotel | 30,269 | 30,170 | -99 |
| Best Western Hotel Harbour View | 7,029 | 6,307 | -722 |
| Best Western Hotel Causeway Bay | 11,552 | 11,294 | -258 |
| Grand City Hotel | 5,767 | 5,788 | +21 |
| Magnificent International Hotel, Shanghai | 2,470 | 2,701 | +231 |
| Total amount for the year | 71,209 | 72,628 | 1,419 |

LOOKING AHEAD

- The hotel industry may have stabilized with increase of visitors from short haul markets and more PRC individual travellers. But the PRC visitor's less spending power, large increase of supply of new hotel rooms, competing room rate and occupancy may still affect hotel industry adversely.
- Hotel revenue in this coming year may experience modest improvement. The management will try to further increase overall revenue by acquisition of income producing hotel properties.
- The management continues to seek good opportunities to further increase operating profit by the acquisition of hotel properties or serviced apartment hotels.

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 year.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this announcement as required under the Listing Rules.

CORPORATE GOVERNANCE

(a) Compliance with the Corporate Governance Code

During the year ended 31st December, 2017, the Company has complied with all the code provisions set out in the Corporate Governance Code of 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 three 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 year.

REVIEW BY THE AUDIT COMMITTEE

The audit committee has reviewed the audited financial results of the Group for the year ended 31st December, 2017.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of total comprehensive income and the related notes thereto for the year ended 31st December, 2017 as set out in the Preliminary Announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the Preliminary Announcement.

By Order of the Board

William CHENG Kai Man
Chairman

Hong Kong, 13th March, 2018

As at the date hereof, the Board comprises nine Directors, of which five are Executive Directors, namely Mr. William Cheng Kai Man, Mr. Albert Hui Wing Ho, Madam Kimmy Lau Kam May, Madam Ng Yuet Ying and Madam Jennie Wong Kwai Fong; one is Non-executive Director, namely 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. Lam Kwai Cheung.