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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, 2018

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 land, property and equipment for the year ended 31st December, 2018 was HK\$241 million (2017: HK\$202 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:

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit after taxation	260,349	152,174
Add: Exchange adjustment	-	21,094
Less: Revaluation gain of investment properties	(97,750)	(50,200)
Add: Properties depreciation and release of prepaid lease payments for land	<u>78,525</u>	<u>79,121</u>
Net profit after tax before exchange adjustment, revaluation gain of investment properties and depreciation for land, property and equipment	241,124	202,189

Consolidated Statement of Profit or Loss*For the year ended 31st December, 2018*

	<i>NOTES</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue	3	579,673	522,432
Cost of sales		(4,414)	(4,593)
Other service costs		(260,703)	(244,557)
Depreciation of property, plant and equipment and release of prepaid lease payments for land		<u>(71,315)</u>	<u>(72,628)</u>
Gross profit		243,241	200,654
Increase in fair value of investment properties		97,750	50,200
Other income and expenses and gains and losses		10,096	(18,120)
Administrative expenses		(39,516)	(38,989)
- Depreciation		(7,210)	(6,493)
- Others		(32,306)	(32,496)
Finance costs	5	<u>(13,759)</u>	<u>(11,085)</u>
Profit before taxation	6	297,812	182,660
Income tax expense	7	<u>(37,463)</u>	<u>(30,486)</u>
Profit for the year attributable to owners of the Company		<u>260,349</u>	<u>152,174</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	9		
Basic		<u>2.91</u>	<u>1.70</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Consolidated Statement of Total Comprehensive Income*For the year ended 31st December, 2018*

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit for the year	<u>260,349</u>	<u>152,174</u>
Other comprehensive (expense) income		
Item that will not be reclassified to profit or loss		
Fair value loss on equity instruments at fair value through other comprehensive income	(54,764)	-
Items that may be subsequently reclassified to profit or loss		
Exchange differences arising on translation of foreign operations	(41,941)	75,068
Fair value gain on available-for-sale investments	<u>-</u>	<u>21,299</u>
Other comprehensive (expense) income for the year	<u>(96,705)</u>	<u>96,367</u>
Total comprehensive income for the year attributable to owners of the Company	<u>163,644</u>	<u>248,541</u>

Consolidated Statement of Financial PositionAt 31st December, 2018

	<i>NOTES</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-Current Assets			
Property, plant and equipment		2,690,769	2,650,413
Prepaid lease payments for land		27,105	29,528
Investment properties		1,099,300	1,055,800
Properties under development		-	74,157
Available-for-sale investments		-	377,370
Equity instruments at fair value through other comprehensive income		320,711	-
		<u>4,137,885</u>	<u>4,187,268</u>
Current Assets			
Inventories		1,309	1,093
Prepaid lease payments for land		815	862
Trade and other receivables	<i>10</i>	23,827	21,327
Other deposits and prepayments		8,330	6,884
Bank balances and cash		499,169	608,762
		<u>533,450</u>	<u>638,928</u>
Current Liabilities			
Trade and other payables and accruals	<i>11</i>	24,822	23,806
Rental and other deposits received		10,752	5,736
Contract liabilities		3,680	-
Amount due to immediate holding company		5,088	4,898
Amount due to ultimate holding company		-	1,501
Tax liabilities		14,611	11,155
Bank loans		172,735	404,094
		<u>231,688</u>	<u>451,190</u>
Net Current Assets		<u>301,762</u>	<u>187,738</u>
Total Assets less Current Liabilities		<u>4,439,647</u>	<u>4,375,006</u>
Capital and Reserves			
Share capital		841,926	841,926
Reserves		3,219,735	3,119,347
Total Equity		<u>4,061,661</u>	<u>3,961,273</u>
Non-Current Liabilities			
Bank loans		278,866	317,646
Rental deposits received		1,552	2,090
Deferred tax liabilities		97,568	93,997
		<u>377,986</u>	<u>413,733</u>
		<u>4,439,647</u>	<u>4,375,006</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”) and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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, 2018 and 2017 included in this preliminary announcement of annual results 2018 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 Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31st December, 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31st December, 2018 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 Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies.

3. REVENUE

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Income from operation of hotels	540,040	483,744
Income from property rental	34,762	34,224
Dividend income	<u>4,871</u>	<u>4,464</u>
	<u>579,673</u>	<u>522,432</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. Properties investment
9. 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,	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hospitality services	540,040	483,744	203,608	161,966
- Best Western Plus Hotel Kowloon	69,763	62,232	19,017	14,808
- Best Western Plus Hotel Hong Kong	90,715	81,600	42,144	35,215
- Magnificent International Hotel, Shanghai	19,969	22,857	3,334	6,741
- Best Western Hotel Causeway Bay	72,108	64,922	24,725	19,384
- Best Western Hotel Harbour View	113,247	97,048	53,433	41,028
- Best Western Grand Hotel	117,884	106,054	38,959	28,629
- Grand City Hotel	56,354	49,031	21,996	16,161
Properties investment	34,762	34,224	132,512	84,424
Securities investment	4,871	4,464	4,871	4,464
	<u>579,673</u>	<u>522,432</u>	<u>340,991</u>	<u>250,854</u>
Other income and expenses and gains and losses			10,096	(18,120)
Central administration costs and directors' emoluments			(39,516)	(38,989)
Finance costs			<u>(13,759)</u>	<u>(11,085)</u>
Profit before taxation			<u>297,812</u>	<u>182,660</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:

	2018	2017
	HK\$'000	HK\$'000
Hong Kong	527,545	468,075
The PRC	19,969	22,857
The UK	<u>32,159</u>	<u>31,500</u>
	<u>579,673</u>	<u>522,432</u>

5. FINANCE COSTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interests on :		
Bank loans	13,747	11,080
Amount due to immediate holding company	12	4
Amount due to ultimate holding company	<u>-</u>	<u>1</u>
	<u>13,759</u>	<u>11,085</u>

6. PROFIT BEFORE TAXATION

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	2,526	2,507
Staff costs including directors' emoluments	182,078	168,414
Depreciation of property, plant and equipment	77,710	78,259
Loss on disposal of property, plant and equipment	99	42
Release of prepaid lease payments for land	815	862
Operating lease rental in respect of rented equipment	3,725	3,726
Gross rental income from investment properties	(34,762)	(34,224)
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	<u>-</u>	<u>-</u>
	<u>(34,762)</u>	<u>(34,224)</u>

7. INCOME TAX EXPENSE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
The taxation charge comprises:		
Current tax		
Hong Kong	28,808	23,175
The PRC	733	1,605
The UK	<u>5,262</u>	<u>4,650</u>
	34,803	29,430
Overprovision in prior years		
Hong Kong	(849)	(154)
The UK	<u>(62)</u>	<u>-</u>
	33,892	29,276
Deferred tax	<u>3,571</u>	<u>1,210</u>
	<u><u>37,463</u></u>	<u><u>30,486</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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Dividend recognised as distribution during the year:		
Final dividend in respect of the year ended 31 st December, 2017 of HK0.627 cent (2017: Final dividend in respect of the year ended 31 st December, 2016 of HK0.563 cent) per share was paid to shareholders	56,098	50,372
Interim dividend in respect of the six months ended 30 th June, 2018 of HK0.08 cent (2017: Interim dividend in respect of the six months ended 30 th June, 2017 of HK0.077 cent) per share payable to shareholders	<u>7,158</u>	<u>6,889</u>
	<u><u>63,256</u></u>	<u><u>57,261</u></u>

The final dividend in respect of the year ended 31st December, 2018 of HK0.652 cent per share amounting to HK\$58,335,000 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\$260,349,000 (2017: HK\$152,174,000) and on 8,947,051,000 shares (2017: 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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables	19,155	19,647
Other receivables	<u>4,672</u>	<u>1,680</u>
	<u>23,827</u>	<u>21,327</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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Not yet due	17,942	18,723
Overdue:		
0-30 days	1,051	865
31-60 days	119	57
61-90 days	<u>43</u>	<u>2</u>
	<u>19,155</u>	<u>19,647</u>

11. TRADE AND OTHER PAYABLES AND ACCRUALS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables	3,557	3,532
Other payables and accruals (Note)	<u>21,265</u>	<u>20,274</u>
	<u>24,822</u>	<u>23,806</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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0-30 days	3,464	3,289
31-60 days	72	239
61-90 days	<u>21</u>	<u>4</u>
	<u>3,557</u>	<u>3,532</u>

Note: As at 31st December, 2018, the other payables and accruals include construction costs payable of HK\$1,100,000 (2017: HK\$2,502,000).

DIVIDEND

The Board recommends the payment of a final dividend of HK0.652 cent per share for the year ended 31st December, 2018 (2017: HK0.627 cent per share) and will be payable on 27th June, 2019 to shareholders whose names appear on the register of members of the Company on 14th June, 2019. With reference to the announcement of 2018 interim results of the Company dated 17th August, 2018, shareholders are reminded that an interim dividend of HK0.080 cent per share for the six months ended 30th June, 2018 is also payable on 27th June, 2019 to shareholders whose names appear on the register of members of the Company on 14th June, 2019. Therefore, shareholders whose names appear on the register of members of the Company on 14th June, 2019 will receive dividends for a total sum of HK0.732 cent per share (2017: HK0.704 cent per share), increased by 4%.

For 2018, the annual dividend to be received by shareholders was equivalent to 4% 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 Monday, 27th May, 2019 ("AGM"), the register of members will be closed from Tuesday, 21st May, 2019 to Monday, 27th May, 2019, 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 Monday, 20th May, 2019.

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 Wednesday, 12th June, 2019 to Friday, 14th June, 2019, 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 Tuesday, 11th June, 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group continued with its hotel investments, hotel management and property leasing.

The net profit after tax attributable to owners of the Company before revaluation gain of investment properties and depreciation of land, property and equipment for the year ended 31st December, 2018 was HK\$241 million (2017: HK\$202 million), increased by 19%. (See below Note a)

	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	Change
Revaluation profit of investment properties	50,200	97,750	+95%
Profit from operation of hotels	153,687	194,187	+26%
Properties rental income	31,418	30,424	-3%
Income from securities investments	4,464	4,871	+9%
Other income and expenses and gains and losses	<u>2,974</u>	<u>10,096</u>	+239%
	242,743	337,328	+39%
Administrative expenses	(38,989)	(39,516)	+1%
Exchange adjustment	(21,094)	-	N/A
Income tax expense	<u>(30,486)</u>	<u>(37,463)</u>	+23%
Profit after taxation	152,174	260,349	+71%
Less: Revaluation profit of investment properties	(50,200)	(97,750)	+95%
Add: Exchange adjustment	21,094	-	N/A
Add: Properties depreciation and release of prepaid lease payments for land	<u>79,121</u>	<u>78,525</u>	-1%
Net profit after tax before exchange adjustment, revaluation gain and depreciation of land, property and equipment	202,189	241,124	+19% (Note a)

Overall net profit increased by HK\$39 million and reasons for its increment:

	<i>HK\$ million</i>
1) Increase in hotel net profit	33
2) Increase in bank interest income	<u>6</u>
	39

PERFORMANCE

- For the year ended 31st December, 2018, the **GROUP'S INCOME** was mostly derived from the aggregate of income from operation of hotels and hotel properties rental income, which was analysed as follows:

Income

	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	Change	Reasoning
Income from operation of hotels	483,744	540,040	+12%	Increase in room rates
Hotel properties rental income	34,224	34,762	+2%	Rental income from UK hotel property
Dividend income	4,464	4,871	+9%	Increase in dividend received from stock investment
Other income	<u>2,974</u>	<u>10,136</u>	+241%	Increase in interest income from fixed deposits
Total	<u><u>525,406</u></u>	<u><u>589,809</u></u>	+12%	

The total income for the Group increased by 12% from HK\$525 million to HK\$590 million compared with last year.

HOTELS PERFORMANCES

During the year, the increase of overnight PRC visitors was 7.4%. According to Hong Kong Tourism Board in 2018, there were 29,262,701 total overnight visitors which increased by 4.9% as compared to 2017. The visitors segments were analysed as follows:

	No. of Visitors	Change (%)
Mainland China	19,901,957	+7.4
Other Asia markets	5,604,709	-1.6
Long haul markets	3,227,091	+2.8
New markets	528,944	+0.7



Ramada Hong Kong Harbour View

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/ yr
2018													
Avg Room Occupancy (%)	100	100	100	100	100	100	100	100	99	100	100	99	100
Avg Room Rate (HK\$)	599	653	643	795	502	524	584	682	596	891	929	877	690

- The **total income** was HK\$113,247,000 (2017: HK\$97,048,000), increased by **+17%**.
- The **net operating income** was HK\$59,070,000 (2017: HK\$47,334,000), increased by **+25%**.
- Best Western Hotel Harbour View was re-branded to the higher class **RAMADA HONG KONG HARBOUR VIEW** in January 2019.



Best Western Grand Hotel

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/ yr
Avg Room Occupancy (%)	99	100	99	99	99	99	99	100	100	99	99	99	99
Avg Room Rate (HK\$)	719	744	731	843	571	622	662	780	680	974	999	1,043	781

- The **total income** was HK\$117,884,000 (2017: HK\$106,054,000), increased by **+11%**.
- The **net operating income** was HK\$67,913,000 (2017: HK\$58,799,000), increased by **+16%**.



Best Western Plus Hotel Hong Kong

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/ yr
Avg Room Occupancy (%)	100	100	100	100	100	100	100	100	100	99	100	100	100
Avg Room Rate (HK\$)	687	691	712	820	558	599	624	732	660	950	988	956	748

- The **total income** was HK\$93,235,000 (2017: HK\$84,120,000), increased by **+11%**.
- The **net operating income** was HK\$48,385,000 (2017: HK\$41,436,000), increased by **+17%**.



Best Western Hotel Causeway Bay

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/ yr
2018													
Avg Room Occupancy (%)	100	100	100	100	100	100	100	100	100	100	100	100	100
Avg Room Rate (HK\$)	669	707	738	864	530	556	593	702	610	972	1,022	929	741

- The **total income** was HK\$72,108,000 (2017: HK\$64,922,000), increased by **+11%**.
- The **net operating income** was HK\$36,083,000 (2017: HK\$30,678,000), increased by **+18%**.
- The renovation of external wall of the hotel with modern LED signages is undergoing in 2019.



Best Western Plus Hotel Kowloon

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/ yr
2018													
Avg Room Occupancy (%)	100	100	100	100	99	100	100	100	99	100	99	99	100
Avg Room Rate (HK\$)	834	843	847	972	650	695	730	873	766	1,085	1,147	1,137	883

- The **total income** was HK\$69,846,000 (2017: HK\$62,436,000), increased by **+12%**.
- The **net operating income** was HK\$32,409,000 (2017: HK\$27,679,000), increased by **+17%**.
- The adding of 40 rooms to the Best Western Plus Hotel Kowloon was completed resulting in increasing monthly revenue over 20%.



Grand City Hotel

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/ yr
Avg Room Occupancy (%)	99	99	100	99	99	99	99	100	99	100	99	99	99
Avg Room Rate (HK\$)	625	667	655	784	521	551	602	709	606	904	953	911	708

- The **total income** was HK\$56,354,000 (2017: HK\$49,031,000), increased by **+15%**.
- The **net operating income** was HK\$27,791,000 (2017: HK\$21,949,000), increased by **+27%**.
- Swimming pool on terrace floor was added in 2018.



Magnificent International Hotel, Shanghai

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/ yr
2018													
Avg Room Occupancy (%)	54	63	89	92	83	90	93	98	69	83	81	72	81
Avg Room Rate (HK\$)	279	316	346	404	342	322	351	365	327	337	379	271	341

- The **total income** was HK\$19,969,000 (2017: HK\$22,857,000), decreased by -13%.
- The **net operating income** was HK\$5,875,000 (2017: HK\$9,443,000), decreased by -38%.



Royal Scot Hotel, London

- The **total rental income** was GBP£3,137,487, equivalent to HK\$32,159,000 (2017: GBP£3,137,487, equivalent to HK\$31,500,000).
- As at 31st December, 2018, an independent third party valuation was GBP£95,000,000 (Acquisition cost GBP£70,000,000).
- Rental increment of about 11% should commence from June 2019.

COST

- **The SERVICE COSTS** of the Group for the year was HK\$265.1 million (2017: HK\$249.1 million), representing hotel operations cost, increased by 6% due to increase in salary expenditures.

Name of Hotel	2017 <i>HK\$ million</i>	2018 <i>HK\$ million</i>	Change
Ramada Hong Kong Harbour View	49.7	54.1	+8.9%
Best Western Grand Hotel	47.3	50.0	+5.7%
Best Western Plus Hotel Kowloon	34.7	37.4	+7.7%
Best Western Plus Hotel Hong Kong	42.7	44.9	+5.1%
Best Western Hotel Causeway Bay	34.2	36.0	+5.3%
Grand City Hotel	27.1	28.6	+5.5%
Magnificent International Hotel, Shanghai	<u>13.4</u>	<u>14.1</u>	+5.2%
Total amount for the year	249.1	265.1	+6.4%

Cost of sale of HK\$4.4 million (2017: HK\$4.6 million) was from cost of food and beverage.

During the year, the **ADMINISTRATIVE EXPENSES** excluding depreciation was HK\$32 million (2017: HK\$32 million) representing costs for corporate management office including directors' fees, salaries for executive staff and employees, rental, marketing expenses and office expenses.

FUNDING

- At 31st December, 2018, the **OVERALL DEBTS** of the Group were HK\$457 million (2017: HK\$728 million), of which HK\$452 million (2017: HK\$722 million) was assets secured bank borrowings and HK\$5 million (2017: HK\$6 million) was advances from shareholder. The decrease in overall debts was due to repayment of bank borrowings.

The gearing ratio was 11% (2017: 18%) in terms of overall debts of HK\$457 million (2017: HK\$728 million) against funds employed of HK\$4,062 million before revaluation of all hotel properties (2017: HK\$3,961 million).

The overall debts were analysed as follows:

	2017 <i>HK\$ million</i>	2018 <i>HK\$ million</i>	Change <i>HK\$ million</i>	Interest Paid 2018 <i>HK\$ million</i>
Bank loans	722	452	-270	13.747
Shareholder's loan	6	5	-1	0.012
Overall debts	728	457	-271	13.759

- FINANCE COST:** Of these loans, the total interest expenses amounted to HK\$13.759 million (2017: HK\$11 million), the bank loans interest expenses amounted to HK\$13.747 million (2017: HK\$10.995 million) and the shareholder's loan interest expenses amounted to HK\$0.012 million (2017: HK\$0.005 million). The bank loan interests increased due to 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, 2018, the Group's staffing level did not have material change when compared with that of 31st December, 2017. Remuneration and benefit were set with reference to the market.

Cash flows of the Group

	2017 <i>HK\$ million</i>	2018 <i>HK\$ million</i>
Gross income	522	580
Less:		
Operating expenses	(282)	(297)
Interests expenses	(11)	(14)
Dividend paid out	(57)	(63)
Net borrowing (repayment) of bank loans	25	(251)
Acquisition of property, plant and equipment	<u>(5)</u>	<u>(8)</u>
Cash Inflow (Outflow)	192	(53)
Less:		
Various construction expenses	(17)	(2)
Acquisition of a subsidiary	<u>(20)</u>	<u>(38)</u>
Cash inflow (Outflow)	155	(93)

- The accounting standards require hotel properties of the Group to provide **depreciation** which amounted to HK\$71 million (2017: HK\$72.6 million) for the year.

Depreciation of Hotel Properties

Name of Hotel	2017 HK\$'000	2018 HK\$'000	Change HK\$'000
Ramada Hong Kong Harbour View	6,307	5,636	-671
Best Western Grand Hotel	30,170	28,954	-1,216
Best Western Plus Hotel Kowloon	12,667	13,309	+642
Best Western Plus Hotel Hong Kong	3,701	3,721	+20
Best Western Hotel Causeway Bay	11,294	11,359	+65
Grand City Hotel	5,788	5,795	+7
Magnificent International Hotel, Shanghai	2,701	2,541	-160
Total amount for the year	72,628	71,315	-1,313

BUSINESS HIGHLIGHT

Under the leadership of our Chairman, Mr. William Cheng, our profit from operation of hotel increased by more than 26%, even though the travellers come to Hong Kong only increased by 4.9%.

Also re-brand Best Western Hotel Harbour View to higher class **RAMADA HONG KONG HARBOUR VIEW**.

The completion of renovation of the Best Western Plus Hotel Kowloon by adding of 40 rooms to increase monthly revenue over 20%.

As at 31st December, 2018, the valuation of Royal Scot Hotel, London was GBP£95,000,000 against initial purchase cost GBP£70,000,000.

LOOKING AHEAD

- The opening of high speed train to the PRC and the new bridge to Macau may facilitate more PRC visitors. However, the uncertain economic situation in the PRC with 9% depreciated Renminbi and the continuing large supply of new local hotels and serious hotel labour shortage will adversely affect the number of visitors, completing room rates/occupancies and rising operating costs.
- The Hong Kong Tourism Board forecast overnight visitors in 2019 will increase by 2% only. The management team lead by our Chairman, Mr. William Cheng, will endeavor to continue to try to increase hotels revenue while controlling operating costs.
- Hotels 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, 2018, 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, 2018.

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, 2018 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, 8th March, 2019

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.