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MEXAN LIMITED

茂盛控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 22)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

The board of directors (the “Board”) of MEXAN LIMITED (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2016. The results have been reviewed by the Audit Committee. The unaudited condensed consolidated accounts of the Group for the six months ended 30 September 2016 together with the comparative figures for the corresponding previous period are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

		Unaudited	
		Six months ended	
		30 September	
	<i>Notes</i>	2016	2015
		HK\$'000	HK\$'000
Revenue	3	46,616	76,764
Direct costs		(12,270)	(12,380)
Gross profit		34,346	64,384
Other revenue	3	1	5
Administrative and other operating expenses		(11,732)	(12,279)
Depreciation and amortisation		(9,611)	(9,556)
Finance costs	5	(359)	(697)
Profit before income tax	6	12,645	41,857
Income tax	7	(3,199)	(8,063)
Profit and total comprehensive income for the period		9,446	33,794

* For identification purpose only

		Unaudited	
		Six months ended	
		30 September	
	<i>Note</i>	2016	2015
		<i>HK\$'000</i>	<i>HK\$'000</i>
Profit and total comprehensive income attributable to:			
Owners of the Company		9,520	33,869
Non-controlling interests		<u>(74)</u>	<u>(75)</u>
		<u>9,446</u>	<u>33,794</u>
Earnings per share – basic and diluted (<i>HK cents</i>)	8	<u>0.726</u>	<u>2.584</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

		Unaudited 30 September 2016 HK\$'000	Audited 31 March 2016 HK\$'000
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		486,369	494,804
Intangible assets		97	679
Investment property		9,283	9,433
Club membership		1,350	1,350
		<u>497,099</u>	<u>506,266</u>
Current assets			
Inventories		129	140
Trade and other receivables	9	20,290	11,914
Amounts due from related parties	12(b)	38	38
Cash and bank balances		21,313	12,745
		<u>41,770</u>	<u>24,837</u>
Current liabilities			
Other payables, deposits received and accrued charges		33,110	31,071
Amount due to a non-controlling shareholder of a subsidiary	12(b)	6,414	6,414
Bank loans	10	54,297	58,959
Tax payable		2,768	2,250
		<u>96,589</u>	<u>98,694</u>

		Unaudited	Audited
		30 September	31 March
	<i>Note</i>	2016	2016
		HK\$'000	HK\$'000
Net current liabilities		<u>(54,819)</u>	<u>(73,857)</u>
Total assets less current liabilities		<u>442,280</u>	<u>432,409</u>
Non-current liabilities			
Deferred tax liabilities		<u>11,313</u>	<u>10,888</u>
Net assets		<u>430,967</u>	<u>421,521</u>
EQUITY			
Share capital	11	26,218	26,218
Reserves		<u>406,681</u>	<u>397,161</u>
Equity attributable to owners of the Company		432,899	423,379
Non-controlling interests		<u>(1,932)</u>	<u>(1,858)</u>
Total equity		<u>430,967</u>	<u>421,521</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements of the Group for the six months ended 30 September 2016 (the “Unaudited Condensed Interim Financial Information”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Unaudited Condensed Interim Financial Information is presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company.

The Unaudited Condensed Interim Financial Information has been prepared on a going concern basis, notwithstanding the fact that the Group had a net current liabilities of HK\$54,819,000 (31 March 2016: HK\$73,857,000 (audited)) as at 30 September 2016.

In the opinion of the directors, the Group is able to maintain itself as a going concern in the next twelve months by taking into consideration that:

- (i) A consistent cash inflow arising from steady hotel room sales is expected for the next twelve months,
- (ii) With the profitable hotel business and net assets of approximately HK\$430,967,000, the Group should be able to secure additional loan facilities, if necessary; and
- (iii) Bank loan with carrying amount of approximately HK\$44,912,000 as at 30 September 2016 that is repayable more than one year after the end of the reporting period pursuant to the repayment schedule included in the loan agreement, with repayment on demand clause, has been classified as current liability as at 30 September 2016 in accordance with Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause. Taking into account the Group’s financial position and the securities underlying the loan, the directors believe that the bank will not exercise its discretionary rights to demand immediate repayment. The directors believe that the bank loan will be repaid in accordance with the scheduled repayment dates set out in the loan agreement.

Based on the above, the directors are satisfied that the Group will have sufficient cash resources to satisfy their future working capital and other financing requirements and it is appropriate to prepare the Unaudited Condensed Interim Financial Information on a going concern basis. Accordingly, the Unaudited Condensed Interim Financial Information has been prepared on a going concern basis and does not include any adjustments that would be required should the Group fail to continue as a going concern. Should the Company be unable to continue in business as a going concern, adjustments would have to be made to reduce the value of assets to their estimated realisable amounts, to reclassify non-current assets and liabilities as current assets and liabilities respectively and to provide for any further liabilities which may arise. The effects of these potential adjustments have not been reflected in the Unaudited Condensed Interim Financial Information.

2. PRINCIPAL ACCOUNTING POLICIES

The Unaudited Condensed Interim Financial Information has been prepared under the historical cost convention and the accounting policies of which are consistent with those of the Group's annual audited financial statements for the year ended 31 March 2016 (the "2016 Annual Financial Statements") as described thereof.

The accounting policies adopted for the six months ended 30 September 2016 are consistent with those used in the preparation of the 2016 Annual Financial Statements except for the adoption of the new and revised Hong Kong Financial Standards ("HKFRSs") which include individual Hong Kong Financial Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations as disclosed below.

The Unaudited Condensed Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the year ended 31 March 2016 Annual Financial Statements, which have been prepared in accordance with HKFRSs.

In the current interim period, the Group has applied, for the first time, the following new or revised HKFRSs issued by the HKICPA, which relevant to and effective for of the Group's financial statements for the annual financial period beginning on or after 1 April 2016.

Annual Improvements to HKFRSs 2012-2014 Cycle

Amendments to HKAS 1, Presentation of financial statements: Disclosure Initiative

Except as explained below, the adoption of these amendments had no material impact on the Group's Unaudited Condensed Interim Financial Information.

Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, Interim financial reporting, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to HKAS 1, Presentation of financial statements: Disclosure Initiative

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective, and have not been early adopted by the Group.

Amendments to HKAS 7 – Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 (2014) includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 (2014) carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 (2014) retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis.

The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company will assess the impact of the application of HKFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of HKFRS 16 until the Group performs a detailed review.

Save as the main changes described above, the Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors are not yet in a position to quantify the effects on the Group's accounting policies and financial statements.

3. REVENUE

The Group's revenue represents the service provided, net of discounts.

An analysis of the Group's revenue and other revenue are as follows:

	Unaudited Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Revenue		
Hotel operations		
– Hotel room sales	44,596	73,663
– Food and beverage income	1,666	2,181
– Miscellaneous sales	354	920
	<u>46,616</u>	<u>76,764</u>
Other revenue		
Bank interest income	<u>1</u>	<u>5</u>
	<u><u>46,617</u></u>	<u><u>76,769</u></u>

4. SEGMENT INFORMATION

The Group has only one reportable operating segment which is the hotel operation. No operating segments have been aggregated to form the above reportable operating segment.

5. FINANCE COSTS

Finance costs comprise the following:

	Unaudited	
	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Interest on bank loans	250	491
Bank charges	109	206
	359	697

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived after charging the following:

	Unaudited	
	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Cost of service provided	12,270	12,380
Staff costs	12,320	11,742
Depreciation of property, plant and equipment	8,879	8,822
Amortisation of intangible assets	582	583
Depreciation of investment property	150	151

7. INCOME TAX

Hong Kong profits tax is provided at the rate of 16.5% (six months ended 30 September 2015: 16.5%) on the estimated assessable profits for the period.

Income tax in condensed consolidated statement of profit or loss and other comprehensive income represents:

	Unaudited	
	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax	2,774	7,638
Deferred taxation	425	425
	3,199	8,063

8. EARNINGS PER SHARE

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

	Unaudited	
	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to owners of the Company	9,520	33,869
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share ('000)	1,310,925	1,310,925

There is no dilutive potential share for the six months ended 30 September 2016 and 2015.

9. TRADE AND OTHER RECEIVABLES

	Unaudited 30 September 2016 HK\$'000	Audited 31 March 2016 HK\$'000
Trade receivables	18,582	10,994
Deposits, prepayments and other receivables	<u>1,708</u>	<u>920</u>
	<u>20,290</u>	<u>11,914</u>

- (a) The Group allows an average credit period of one week (31 March 2016: one week) to its trade customers. All trade receivables are expected to be recovered within one year. The following is an ageing analysis of trade receivables, based on invoice date and net of allowance, at the end of the reporting period:

	Unaudited 30 September 2016 HK\$'000	Audited 31 March 2016 HK\$'000
Within 30 days	7,750	6,355
31 – 60 days	5,146	4,639
61 – 90 days	3,942	–
Over 90 days	<u>1,744</u>	<u>–</u>
	<u>18,582</u>	<u>10,994</u>

10. BANK LOANS

	Unaudited 30 September 2016 HK\$'000	Audited 31 March 2016 HK\$'000
Secured bank instalment loans	<u>54,297</u>	<u>58,959</u>

- (a) All bank loans are denominated in HK\$, carried at a variable interest rate with reference to HIBOR. At 30 September 2016, effective interest rate of the bank instalment loans is 0.89% (31 March 2016: 0.89%) per annum.
- (b) All bank loans are secured by the first legal charge of the hotel property of the Group, the corporate guarantee from the Company and guarantees from the directors of the Company and their related companies.
- (c) Based on the scheduled repayment date set out in the loan agreements, the amounts repayable in respect of the installment loans are as follows:

	Unaudited	Audited
	30 September	31 March
	2016	2016
	HK\$'000	HK\$'000
On demand or within one year	<u>9,385</u>	<u>9,340</u>
More than one year, but not exceeding two years	9,469	9,423
More than two years, but not exceeding five years	28,913	28,777
After five years	<u>6,530</u>	<u>11,419</u>
	<u>44,912</u>	<u>49,619</u>
	<u>54,297</u>	<u>58,959</u>
Carrying amount of bank loans for repayment after one year which contain a repayment on demand clause (shown under current liabilities)	<u>44,912</u>	<u>49,619</u>

11. SHARE CAPITAL

	30 September 2016 (Unaudited)		31 March 2016 (Audited)	
	<i>Number of</i>	<i>Amount</i>	<i>Number of</i>	<i>Amount</i>
	<i>shares</i>	<i>HK\$'000</i>	<i>shares</i>	<i>HK\$'000</i>
<i>Authorised:</i>				
Ordinary shares of HK\$0.02 each	<u>3,000,000,000</u>	<u>60,000</u>	<u>3,000,000,000</u>	<u>60,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.02 each	<u>1,310,925,244</u>	<u>26,218</u>	<u>1,310,925,244</u>	<u>26,218</u>

12. RELATED PARTY TRANSACTIONS

As at 30 September 2016, the directors consider the ultimate holding company of the Company to be Winland Stock (BVI) Limited which is incorporated in the British Virgin Islands.

Transactions between the Company and its subsidiaries, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related companies are disclosed below.

- (a) As at 30 September 2016, the Group's bank loans of HK\$54,297,000 (31 March 2016: HK\$58,959,000) were secured by personal guarantees from Mr. Lun Yiu Kay Edwin, director of the Company, and corporate guarantees from Winland Enterprises Limited in which Mr. Lun Yiu Kay Edwin has beneficial interests.
- (b) Amounts due from related parties and amount due to a non-controlling shareholder of a subsidiary are all unsecured, interest-free and repayable on demand.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 September 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group mainly focuses on the operation of Mexan Harbour Hotel, a 800-room four-star hotel in Tsing Yi. For the six months ended 30 September 2016, the Group recorded a total revenue of approximately HK\$47 million (for six months ended 30 September 2015: HK\$77 million) generated from hotel operations.

The profit before income tax for the period was HK\$13 million (for six months ended 30 September 2015: HK\$42 million), representing a decrease of 69% as compared with the corresponding period in last year.

Looking forward, the management will closely monitor any future fluctuations and uncertainties of the market, continues optimizing its earnings, implementing strict cost controls and keep on improving their quality of services to customers.

LIQUIDITY AND FINANCIAL INFORMATION

As at 30 September 2016, the Group's total borrowings amounted to approximately HK\$54 million (31 March 2016: HK\$59 million). As at 30 September 2016, cash and bank balances amounted to approximately HK\$21 million (31 March 2016: HK\$13 million). The Group's net assets as at 30 September 2016 amounted to HK\$431 million (31 March 2016: HK\$422 million).

Gearing ratio of the Group that is expressed as a percentage of total borrowings to shareholders' funds was approximately 13% as at 30 September 2016 compared to approximately 14% as at 31 March 2016.

Of the Group's total borrowings as at 30 September 2016, approximately HK\$9 million (17%) would be due within one year, approximately HK\$9 million (17%) would be due in more than one year but not exceeding two years, approximately HK\$29 million (54%) would be due in more than two years but not exceeding five years and the remaining balance of approximately HK\$7 million (12%) would be due in more than five years.

The Group's total borrowings were denominated in HK\$, and bear a variable interest rate.

The above borrowings were secured by the hotel property, corporate guarantee from the Company and guarantees from directors and their related companies.

The Group has limited exposure to foreign exchange fluctuations as the Group's transactions including the borrowings are mainly conducted in Hong Kong dollars. As at 30 September 2016, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivative.

EMPLOYEE INFORMATION AND EMOLUMENT POLICY

As at 30 September 2016, the total number of employees of the Group was approximately 114 (31 March 2016: 119). Remuneration packages are generally structured by reference to market terms and individual qualifications. The emoluments of the Directors are determined having regard to the Company's operating results, individual performance and comparable market statistics. No director, or any of his associates, and executive is involved in dealing his own remuneration. The remuneration policies of the Group are normally reviewed on a periodical basis. The Group participates in a mandatory provident fund scheme that covers all the eligible employees of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2016, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2016 except for the following deviation:

Under the code provision A.4.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, in accordance with the Bye-laws, the Chairman and Managing Director are not subject to retirement by rotation or taken into account on determining the number of directors to retire. This constitutes a deviation from code provision A.4.2 of the CG Code. As continuation is a key factor to the successful implementation of business plans, the Board believes that the roles of Chairman and Managing Director provide the Group with strong and consistent leadership and are beneficial to the Company especially in planning and execution of business strategies and also believes that the present arrangement is beneficial to the Company and the shareholders of the Company as a whole.

Under the code provision A.6.7 of the CG Code, the independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Ng Hung Sui Kenneth is an independent non-executive director of the Company was unable to attend the annual general meeting of the Company held on 7 September 2016 as they had other business engagement.

AUDIT COMMITTEE

The Audit Committee of the Company, with terms of reference in compliance with the provisions set out in the CG Code, comprises all the independent non-executive directors. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 September 2016 and discussed with the management the accounting principles and practices and internal control of the Group.

REMUNERATION COMMITTEE

The Remuneration Committee, with terms of reference in compliance with the provisions set out in the CG Code, comprises four members, a majority of whom are independent non-executive directors. The role and function of the Remuneration Committee is to review, discuss and approve the remuneration mechanism of the directors and senior management of the Company and to establish and maintain a reasonable and competitive remuneration level in order to attract and retain the directors and senior management.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the six months ended 30 September 2016.

APPRECIATION

We would like to thank all of our customers, suppliers, shareholders, professional advisers and bankers for their continuous support and all members of our management and staff for their dedicated work and effort during the period under review.

By Order of the Board
MEXAN LIMITED
Lun Yiu Kay Edwin
Chairman

Hong Kong, 25 November 2016

As at the date of this announcement, the executive directors are Mr. Lun Yiu Kay Edwin (Chairman), Ms. Suen Chui Fan and Mr. Ng Tze Ho Joseph and the independent non-executive directors are Dr. Tse Kwing Chuen, Mr. Ng Hung Sui Kenneth and Mr. Lau Shu Kan.