凱聯國際酒店有限公司

Associated International Hotels Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 105)

Preliminary Announcement of Interim Results for the six months ended 30 September 2017

(Expressed in Hong Kong dollars)

The Board of Directors would like to announce the unaudited consolidated results of the Group for the half year ended 30 September 2017. These results have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by KPMG, certified public accountants in Hong Kong, and the Audit Committee with no disagreement. The unmodified review report of the auditor is included in the interim report to be sent to members of the Company.

Consolidated statement of profit or loss and other comprehensive income — unaudited

		Six months ended 30 September	
	Note	**2017**	2016
		$'000	*$'000*
Revenue	3	**322,011**	334,552
Cost of services		**(42,027)**	(41,282)
Gross profit		**279,984**	293,270
Other revenue	5(a)	**2,654**	3,511
Other net income/(loss)	5(b)	**1**	(7)
Administrative expenses		**(15,431)**	(16,504)
Profit from operations before valuation changes in investment properties		**267,208**	280,270
Net valuation losses on investment properties		**(391,093)**	(145,687)
(Loss)/profit from operations after valuation changes in investment properties		**(123,885)**	134,583
Finance costs	6(a)	**(1,366)**	(1,189)
(Loss)/profit before taxation	6	**(125,251)**	133,394
Income tax	7	**(43,775)**	(45,799)
(Loss)/profit and total comprehensive income for the period attributable to equity shareholders of the Company		**(169,026)**	87,595
(Loss)/earnings per share — basic and diluted	9	**$(0.47)**	$0.24

Details of dividends payable to equity shareholders of the Company are set out in note 8.

Consolidated statement of financial position — unaudited

	Note	**At 30 September 2017**		At 31 March 2017	
		$'000	***$'000***	*$'000*	*$'000*
Non-current assets					
Fixed assets					
— Investment properties			**13,641,250**		14,031,470
— Other properties, plant and equipment			**70,000**		71,966
			13,711,250		14,103,436
Current assets					
Accounts receivable, deposits and prepayments	10	**16,196**		21,532	
Pledged bank deposits		**146,925**		134,981	
Cash and cash equivalents		**406,417**		385,602	
		569,538		542,115	
Current liabilities					
Other payables and accruals	11	**22,389**		16,719	
Deposits received		**186,813**		195,213	
Provision for long service payments		**1,446**		1,513	
Obligations under finance leases		**29**		29	
Current tax payable		**38,985**		19,849	
		249,662		233,323	
Net current assets			**319,876**		308,792
Total assets less current liabilities			**14,031,126**		14,412,228
Non-current liabilities					
Bank loan — secured		**200,000**		200,000	
Government lease premiums payable		**1,920**		1,920	
Obligations under finance leases		**32**		46	
Deferred tax liabilities		**66,236**		62,298	
			268,188		264,264
NET ASSETS			**13,762,938**		14,147,964
CAPITAL AND RESERVES					
Share capital			**360,000**		360,000
Reserves			**13,402,938**		13,787,964
TOTAL EQUITY			**13,762,938**		14,147,964

Notes:

1. **Basis of preparation**

The unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the HKICPA.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the financial statements for the year ended 31 March 2017, except for the accounting policy changes that are expected to be reflected in the financial statements for the year ending 31 March 2018. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The financial information relating to the financial year ended 31 March 2017 that is included in this preliminary announcement of interim results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year 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 31 March 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.

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

2. **Changes in accounting policies**

The HKICPA has issued several amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

— Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*

— Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. **Revenue**

The principal activity of the Group is property investment.

Revenue represents gross rental income received and receivable from investment properties.

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenue. During the period, revenue from this customer amounted to approximately $36,404,000 (2016: $38,626,000).

4. Segment information

The Group has a single reportable segment which is "Property leasing". Accordingly, the business segment information for this sole reportable segment is equivalent to the consolidated figures.

No separate geographical information is presented as the Group's revenue and results of property leasing were derived from Hong Kong.

5. Other revenue and net income/(loss)

	Six months ended 30 September	
	2017	2016
	$'000	*$'000*
(a) Other revenue		
Interest income	**1,760**	1,880
Management fee received from holding company	**600**	600
Compensation from early termination of lease	**273**	1,005
Others	**21**	26
	2,654	3,511
(b) Other net income/(loss)		
Net gain/(loss) on disposals of fixed assets	**1**	(7)

6. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

	Six months ended 30 September	
	2017	2016
	$'000	*$'000*
(a) Finance costs		
Interest on bank loan	**1,218**	1,040
Interest on government lease premiums payable	**23**	23
Other borrowing costs	**125**	126
	1,366	1,189
(b) Other item		
Depreciation	**2,332**	3,596

7. Income tax

	Six months ended 30 September	
	2017	2016
	$'000	*$'000*
Current tax		
Hong Kong profits tax	**39,837**	42,127
Deferred tax		
Origination and reversal of temporary differences	**3,938**	3,672
	43,775	45,799

The provision for Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the six months ended 30 September 2017.

8. Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the interim period

	Six months ended 30 September	
	2017	2016
	$'000	*$'000*
Interim dividend declared after the interim period of $0.60 per share (2016: $0.60 per share)	**216,000**	216,000

The interim dividend declared after the interim period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 September	
	2017	2016
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of $0.60 per share (year ended 31 March 2016: $0.60 per share)	**216,000**	216,000

9. (Loss)/earnings per share — basic and diluted

The calculation of basic loss per share (2016: earnings per share) is based on the loss attributable to equity shareholders of the Company of $169,026,000 (2016: a profit of $87,595,000) and 360,000,000 (2016: 360,000,000) ordinary shares in issue during the period. There were no potential dilutive ordinary shares in existence during the six months ended 30 September 2017 and 2016.

10. Accounts receivable, deposits and prepayments

The ageing analysis of accounts receivable (net of allowance for bad and doubtful debts) which was included in accounts receivable, deposits and prepayments as of the end of the reporting period is as follows:

	At 30 September 2017	At 31 March 2017
	$'000	*$'000*
Current	**8,251**	9,257
Less than 1 month past due	**770**	1,190
1 to 3 months past due	**19**	779
More than 3 months but less than 12 months past due	**10**	16
Amounts past due	**799**	1,985
Total accounts receivable, net of allowance for bad and doubtful debts	**9,050**	11,242
Deposits and prepayments	**7,146**	10,290
	16,196	21,532

Debts are generally due on the 1st day of each month and 10 to 14 days are allowed for settlement or else interest will be charged. Legal action will be taken against past due debtors whenever the situation is appropriate.

11. Other payables and accruals

All of the other payables and accruals are expected to be settled within one year.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved that an interim dividend of $0.60 per share (2016: $0.60 per share) will be paid on Friday, 5 January 2018 to members whose names appear on the register of members of the Company on Tuesday, 19 December 2017. The register of members of the Company will be closed for the purpose of determining entitlement to the said interim dividend from Friday, 15 December 2017 to Tuesday, 19 December 2017, both days inclusive, during which period no transfer of shares will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. (Hong Kong time) on Thursday, 14 December 2017.

BUSINESS REVIEW AND COMMENTARY

- The Group achieved a profit from operations before valuation changes in investment properties of $267.2 million for the half year ended 30 September 2017, representing a decrease of approximately 4.7% compared with the corresponding period of last year. The decrease was mainly due to decrease of rental income from iSQUARE compared to the corresponding period of last year.

- Net valuation losses on investment properties for the half year ended 30 September 2017 amounted to $391.1 million, compared with the net valuation losses of $145.7 million for the corresponding period of last year. The valuation losses will only affect the accounting profit or loss but not the cash flow of the Group.

- The Group recorded a loss attributable to equity shareholders of $169.0 million, compared with a profit attributable to equity shareholders of $87.6 million for the corresponding period of last year, mainly attributable to the aforesaid valuation losses.

- iSQUARE is a commercial complex housing retail, entertainment, food and beverage establishments. Rental income from iSQUARE amounted to approximately $320.2 million for the half year ended 30 September 2017, representing a decrease of approximately 3.8% compared with the corresponding period of last year. The occupancy rate at 30 September 2017 was approximately 97.4% compared with approximately 95.2% at 30 September 2016.

- The total equity for the Group at 30 September 2017 was $13,762.9 million, compared with $14,148.0 million at 31 March 2017.

- On 7 October 2013, the Company entered into a facility agreement with a bank comprising of a 3-year term loan facility of up to $200 million and a 3-year revolving loan facility of up to $100 million both at floating interest rate. On 30 August 2016, the Company entered into a supplemental agreement with the bank for extension of the facilities for three years to 8 October 2019. The Company has an option to further extend the facilities for two additional years to 8 October 2021, subject to, among other things, the agreement of the lending bank. At 30 September 2017, the banking facilities were utilised to the extent of $200 million (31 March 2017: $200 million) and the Group's gearing ratio (calculated as total bank loans divided by total equity) was 1.5% (31 March 2017: 1.4%).

- At 30 September 2017, the total number of employees of the Group, excluding the staff employed by Cushman & Wakefield Property Management Limited (formerly known as DTZ Cushman & Wakefield Property Management Limited) for general building and property management of iSQUARE, was 36 (30 September 2016: 38) and the related costs incurred during the period were approximately $10.6 million (30 September 2016: $10.4 million).

- Save as disclosed in this announcement, there has been no further material change to the information contained in the Company's annual report for the year ended 31 March 2017 which necessitates additional disclosure to that made herein.

OUTLOOK

With the anticipated increase in new supply of retail premises in the Tsim Sha Tsui area, it is expected that downward pressure on the Hong Kong leasing market will continue. Management will closely monitor the market changes and will take appropriate steps to reduce the possible impact on the rental income of the Group. It is anticipated that rental income from iSQUARE and the results from operations of the Group for the current financial year will decrease.

PURCHASE, SALE OR REDEMPTION BY THE COMPANY AND ITS SUBSIDIARIES OF ITS LISTED SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 September 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company throughout the six months ended 30 September 2017 complied with all the code provisions, where applicable, set out in the Corporate Governance Code in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), except for the deviations as disclosed hereunder:

- Code Provision A.1.8: Appropriate insurance cover in respect of legal action against directors should be arranged

  Currently, the Company does not have insurance cover for legal action against its Directors. The Board believes that with the current risk management and internal control systems and the close supervision of the management, the Directors' risk of being sued or getting involved in litigation in their capacity as Directors is relatively low. Benefits to be derived from taking out insurance may not outweigh the cost. Despite it, every Director is, subject to the provisions of the applicable laws, indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities he/she may sustain or incur in or about the execution of his/her office or otherwise in relation thereto pursuant to the Articles of Association of the Company. In view of the above, the Board considers that the Directors' exposure to risk is manageable.

- Code Provision A.2.1: The roles of chairman and chief executive should be separated and performed by two individuals

  Mr Cheong Hooi Hong is both the Chairman and chief executive of the Company. To avoid concentration of power and authority in any one individual, day-to-day management of the Company's business is shared by Executive Directors whilst formulation of objectives and strategic decisions are collectively made by the Board. In addition, the Board comprises Independent Non-executive Directors ("INEDs") with differing expertise/calibre who can provide a "check and balance" effect on the management through their high attendance at board meetings and therefore ensuring a balance of power. Given consideration to the aforesaid, the Board of Directors is of the view that the current structure does not have any adverse effect on the Company and believes that this structure enables the Group to make and implement decisions promptly and efficiently.

- Code Provision A.5.1: Issuer should establish a nomination committee which is chaired by the chairman of the board or an INED and comprises a majority of its members as INEDs

  Following the passing away of Mr Yau Allen Lee-nam on 25 July 2017, the Nomination Committee then only consisted of 4 members (including 2 Executive Directors and 2 INEDs) with the number of INEDs falling below the one as stipulated in this code provision.

  To rectify this situation, Mr Wong Yiu Tak was appointed as an INED and a member of the Nomination Committee on 3 October 2017. Subsequent to the appointments, the Company complies with this code provision as the Nomination Committee comprises 5 members with a majority of whom as INEDs since then.

- Code Provision B.1.5: Remuneration details of senior management should be disclosed by band in annual reports

  The remuneration details of the senior management are not disclosed by band in the annual report. To ensure they are remunerated at a reasonable but not excessive rate, none of them is involved in deciding his/her own remuneration or related to the remuneration committee members (who are authorised to collectively determine the remuneration of the senior management based on a number of factors set out in the Company's remuneration policy). The Directors consider that the non-disclosure does not pose any negative impact on the Company. On the contrary, the disclosure of the remuneration details of the senior management may cause undue comparison and discontent among staff members, and would unnecessarily provide highly sensitive and confidential information to competitors and other third parties looking to recruit the senior management. In light of the above, the Directors are of the view that the disclosure of such information would neither provide pertinent information in furtherance of corporate governance, nor be in the interests of the members of the Company.

- Code Provision C.2.5: Issuer should have an internal audit function and review the need for one in case of its absence annually

  At present, the Company does not have an internal audit function. The Board reviewed the need for setting up an internal audit function in March 2017 and considered that there was no such an immediate need after taking into account the Group's current circumstances, such as the focused nature and geographical spread of business, the relatively simple operating structure and small size of the Group and the close involvement and supervision of the management in daily operation, which could provide sufficient risk management and internal control for the Group. Despite it, the Board has taken initiatives to promote the adequacy and effectiveness of the risk management and internal control systems by creating a control environment across the Group (such as building up a corporate culture based on sound business ethics and accountability through the implementation of "whistle-blowing" arrangements and procedure manuals with defined roles, responsibilities and reporting lines) and putting control activities in place (such as conducting group-wide risk assessment exercise regularly). In addition, where the external auditor of the Company considers any internal controls that are relevant to the audit of the financial statements, it will report to the Audit Committee any significant deficiencies in internal control identified during the audit.

  In view of the above considerations and the potential cost to be involved, the Board is of the opinion that it is not cost effective to set up and maintain an internal audit function and that the existing control mechanism could justify its absence for the time being. Nonetheless, the Board will review the need for an internal audit function on an annual basis.

- Code Provision F.1.3: The company secretary should report to the board chairman and/or the chief executive

  Instead of reporting to the Chairman (who is also the chief executive of the Company), the company secretary reports directly to the deputy chairman. Since the company secretary is located in the same office as the deputy chairman and they work closely on a day-to-day basis, direct reporting to the deputy chairman can provide for a prompt and timely response to issues which require immediate attention. On the other hand, the Chairman keeps having ongoing discussion and dialogue with the deputy chairman on business affairs, in particular corporate governance and financial issues, which enables him to fully understand the operation of the Company and manage it in an effective manner. Taking into account of the above, the Board considers that the current reporting line is apposite to the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its code for dealing in securities in the Company by its Directors ("Model Code"). Specific enquiry has been made to all Directors of the Company as to whether they have complied with or whether there has been any non-compliance with the Model Code, and all Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 September 2017.

COMPLIANCE WITH RULES 3.10(1) AND 3.10A OF THE LISTING RULES

Following the passing away of Mr Yau Allen Lee-nam on 25 July 2017, the Board then comprised eight members (including five Executive Directors, one Non-executive Director and two INEDs) and the Company was therefore not in compliance with Rules 3.10(1) and 3.10A of the Listing Rules, which respectively stipulate that every board of directors of a listed company must include at least 3 INEDs, and a listed company must appoint INEDs representing at least one-third of its board of directors.

In order to fulfil the said requirements, Mr Wong Yiu Tak was appointed as an INED of the Company with effect from 3 October 2017 (which is within the 3-month grace period in accordance with Rule 3.11 of the Listing Rules). Subsequent to his appointment, the number of INEDs of the Company meets the minimum number as required under the said Rule 3.10(1) and represents one-third of the Board as required under the said Rule 3.10A.

INTERIM REPORT

The Company's interim report containing all information required by the Listing Rules will be despatched to its members in due course.

By order of the Board
Associated International Hotels Limited
Ng Sau Fong
Company Secretary

Hong Kong, 28 November 2017

As at the date of this announcement, Mr Cheong Hooi Hong, Mr Cheong Kheng Lim, Mr Cheong Keng Hooi, Mr Cheong Sim Lam and Miss Cheong Chong Ling are executive directors, Mr Sin Cho Chiu, Charles is a non-executive director, and Mr Chow Wan Hoi, Paul, Mr Wong Yiu Tak and Mr Lee Chung are independent non-executive directors.

Note: The translation into Chinese language of this announcement is for reference only. In case of any inconsistency, the English version shall prevail.