FAR EAST HOTELS AND ENTERTAINMENT LIMITED

遠東酒店實業有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00037)

Announcement

Final Results For The Year Ended 31 March 2019

RESULTS

The board of directors (the “Directors” and the "Board”, respectively) of Far East Hotels and Entertainment Limited (the "Company") announces that the audited consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2019 together with the relevant comparative figures are set out as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Notes	2019 HK$	2018 HK$
Revenue	2	**52,379,154**	52,580,269
Cost of sales		**(38,881,989)**	(42,377,627)
Gross profit		**13,497,165**	10,202,642
Other income		**873,361**	1,020,502
Other gains or losses	3	**(8,206,871)**	12,039,618
Net increase in fair value of investment properties		**9,345,438**	7,388,750
Administrative expenses		**(21,035,447)**	(20,276,715)
Finance costs	4	**(813,191)**	(804,299)
Share of results of associates		**596,072**	488,255
(Loss) profit before tax	7	**(5,743,473)**	10,058,753
Income tax expense	5	**(3,851,997)**	(2,622,855)
(Loss) profit for the year attributable to owners of the Company		**(9,595,470)**	7,435,898
Other comprehensive (expense) income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(3,457,890)**	3,420,614
Total comprehensive (expense) income for the year attributable to owners of the Company		**(13,053,360)**	10,856,512
(LOSS) EARNINGS PER SHARE	6	**Cents**	Cents
Basic		**(1.57)**	1.22
Diluted		**(1.57)**	1.22

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019

	Notes	2019 HK$	2018 HK$
Non-current assets			
Property, plant and equipment		**61,973,925**	65,032,278
Deposit for acquisition for property, plant and equipment		**700,655**	-
Investment properties		**188,235,225**	180,282,614
Interests in associates		**1,055,967**	459,895
Promissory notes receivables		**-**	3,250,000
Equity instrument at fair value through other comprehensive income		**-**	-
Paintings		**3,921,217**	3,921,217
Available-for-sale investment		**-**	-
		255,886,989	252,946,004
Current assets			
Financial assets at fair value through profit or loss		**38,460,864**	47,212,282
Inventories		**314,842**	449,742
Promissory notes receivables		**8,085,000**	12,000,000
Trade receivables	8	**1,109,100**	10,333,621
Other receivables, deposits and prepayment		**1,628,289**	1,233,014
Pledged bank deposits		**2,118,000**	2,118,000
Bank deposits		**6,994,637**	-
Deposit held with a security broker company		**2,253,429**	2,766,263
Bank balances and cash		**14,139,430**	11,113,032
		75,103,591	87,225,954
Current liabilities			
Trade and other payables and accruals	9	**11,491,311**	10,250,120
Contract liablities		**304,727**	-
Deposits received		**80,000**	206,396
Amount due to an associate		**678,381**	287,381
Amounts due to related companies		**679,121**	695,076
Bank borrowings		**16,911,478**	17,145,934
Obligation under finance leases		**293,673**	326,257
Tax payable		**1,993,168**	1,417,676
		32,431,859	30,328,840
Net current assets		**42,671,732**	56,897,114
Total assets less current liabilities		**298,558,721**	309,843,118

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 31 March 2019

	Note	2019 HK$	2018 HK$
Capital and reserves			
Share capital	10	**312,890,213**	312,144,213
Reserves		**(27,851,087)**	(18,315,414)
		285,039,126	293,828,799
Non-current liabilities			
Deferred taxation		**1,508,462**	1,205,179
Provision for long service payments		**2,053,401**	2,053,401
Obligation under finance leases		**346,735**	374,737
Bank borrowings		**9,610,997**	12,381,002
		13,519,595	16,014,319
		298,558,721	309,843,118

Notes

1. Application of new and amendments to Hong Kong Financial Reporting Standards ("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 Hong Kong Institute of Certified Public Accountants 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 HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfer of Investment Property

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
[4] Effective for annual periods beginning on or after 1 January 2020

2. Segment information

The Group's reportable segments under HKFRS 8 are as follows:

- Hotel operation in Hong Kong
- Serviced property letting in The People's Republic of China, excluding Hong Kong (the "Mainland China")
- Property investment in Hong Kong
- Property investment overseas
- Securities investment and trading

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments.

	Hotel operation in Hong Kong	Serviced property letting in the Mainland China	Property investment in Hong Kong	Property investment overseas	Securities investment and trading	Total
	HK$	HK$	HK$	HK$	HK$	HK$
2019						
Revenue	**20,643,739**	**30,126,896**	**431,314**	**1,177,205**	**-**	**52,379,154**
Segment profit (loss)	**2,320,220**	**10,231,306**	**9,075,267**	**1,040,138**	**(7,331,638)**	**15,335,293**
Unallocated gains and losses						**173,800**
Unallocated expenses						**(21,035,447)**
Unallocated finance costs						**(813,191)**
Share of results of associates						**596,072**
Loss before tax						**(5,743,473)**
Income tax expense						**(3,851,997)**
Loss for the year						**(9,595,470)**

	Hotel operation in Hong Kong	Serviced property letting in the Mainland China	Property investment in Hong Kong	Property investment overseas	Securities investment and trading	Total
	HK$	HK$	HK$	HK$	HK$	HK$
2018						
Revenue	21,375,106	28,946,952	654,094	1,604,117	-	52,580,269
Segment profit (loss)	2,824,495	8,411,891	10,990,150	(4,635,145)	12,834,970	30,426,361
Unallocated gains and losses						225,150
Unallocated expenses						(20,276,714)
Unallocated finance costs						(804,299)
Share of results of associates						488,255
Profit before tax						10,058,753
Income tax expense						(2,622,855)
Profit for the year						7,435,898

Geographical information

	Revenue from external customers		Non-current assets	
	2019	2018	**2019**	2018
	HK$	HK$	**HK$**	HK$
Hong Kong	**21,075,053**	22,029,200	**192,445,194**	184,656,041
The Mainland China	**30,126,896**	28,946,952	**29,359,260**	32,699,351
Overseas	**1,177,205**	1,604,117	**34,082,535**	35,590,612
	52,379,154	52,580,269	**255,886,989**	252,946,004

3. Other gains or losses

	2019 HK$	2018 HK$
(Decrease) increase in fair value of financial assets at fair value through profit or loss	**(8,063,195)**	12,039,618
Impairment loss recognised in respect of promissory notes receivables	**(165,000)**	-
Gain on disposal of property, plant and equipment	**21,324**	-
	(8,206,871)	12,039,618

4. Finance costs

	2019 HK$	2018 HK$
Interests on borrowings and overdrafts	**790,298**	771,042
Interest on finance leases	**22,893**	33,257
	813,191	804,299

5. Income tax expense

No provision for Hong Kong Profits Tax is required as the individual companies comprising the Group either incurred a loss or has tax losses brought forward from prior years to offset the assessable profits.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate for the Mainland China subsidiary is 25% for both years.

Fiji corporate income tax is calculated in accordance with Income Tax Act at a rate of 20%.

6. (Loss) Earnings per share

The calculation of basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the loss for the year of HK$9,595,470 (2018: profit for the year of HK$7,435,898) and the number of shares as calculated below.

	2019	2018
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	**609,839,442**	607,710,675

For the year ended 31 March 2019, the computation of the diluted loss per share for the year did not assume the exercise of the Company's share options, because this would result in a decrease in the loss per share.

For the year ended 31 March 2018, the computation of the diluted earnings per share does not assume the exercise of the Company's share options, because the exercise price of those options was higher than the average market price for shares for the year.

7. (Loss) Profit before tax

	2019	2018
	HK$	HK$
(Loss) profit before tax has been arrived at after charging:		
Auditor's remuneration		
- audit service	**1,180,000**	1,075,000
- non-audit services	**179,000**	49,000
Cost of inventories recognised as an expense	**3,763,908**	5,047,378
Write-down of inventory	**186,215**	-
Depreciation of property, plant and equipment	**8,680,628**	8,505,152
Operating lease rentals in respect of rented premises	**6,324,446**	6,492,579
Staff costs:		
Directors' remuneration	**6,400,769**	6,052,393
Other staff:		
- Salaries and other allowances	**11,551,684**	11,543,841
- Retirement benefit schemes contributions	**657,054**	651,777
	12,208,738	12,195,618
and crediting:		
Interest income (included in other income)		
- Bank deposits	**25,921**	10,412
- Promissory notes receivables	**118,177**	209,427
	144,098	219,839
Dividend income from financial assets at fair value through profit or loss (included in other income)	**729,263**	794,502
Net rental income from properties	**26,150,930**	24,151,783

8. Trade receivables

Trade debtors mainly comprise of receivable from renting of properties and hotel operation. Rentals are payable on presentation of demand notes. No credit is allowed to these customers. Hotel room revenue is normally settled by cash or credit card. The Group allows an average credit period of not more than 30 days to travel agents and corporate customers.

The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the invoice dates at the end of the reporting period which approximate the respective date of rendering of services.

	2019	2018
	HK$	HK$
0 - 30 days	**502,205**	9,029,384
31 - 60 days	**120,471**	123,631
Over 60 days	**486,424**	1,180,606
	1,109,100	10,333,621

As at 31 March 2018, in determining the recoverability of trade receivables, the Group considers any change in the credit quality of the debtors from the date credit was initially granted up to the reporting date. There is no concentration of credit risk due to the major customer base being large. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance already made. The Group does not hold any collateral over these balances.

Trade receivables aged over 30 days are past due.

Movement in the allowance for doubtful debts

	2018
	HK$
Balance at beginning of the year	234,449
Exchange adjustment	25,309
Amounts written off as uncollectible	(259,758)
Balance at end of the year	-

Trade receivable due from the related party

Included in the Group's trade receivables is an unsecured amount due from the Group's related company of HK$619,796 (2018: HK$1,416,613). An amount of HK$449,715 (2018: HK$1,015,818) is past due at the reporting date but which is not considered as in default. No impairment has been recognised in accordance with Expected Credit Loss model in respect of the amount outstanding from the related company. The related company is controlled by a director of the Company.

9. Trade and other payables and accruals

	2019	2018
	HK$	HK$
Trade payables	**749,510**	913,774
Other payables and accruals	**5,425,312**	4,510,742
Receipt in advance	**5,316,489**	4,825,604
	11,491,311	10,250,120

Included in trade and other payables and accruals are trade payables of HK$749,510 (2018: HK$913,774). The following is an aged analysis of the trade payables based on invoice date:

	2019	2018
	HK$	HK$
0 - 30 days	**256,329**	339,616
31 - 60 days	**219,652**	343,944
Over 60 days	**273,529**	230,214
	749,510	913,774

The average credit period on purchase of goods is 60 days.

10. Share capital

	Number of shares	HK$
Issued and fully paid:		
Ordinary shares with no par value		
At 1 April 2017 and 31 March 2018	607,710,675	312,144,213
Exercise of share options	3,000,000	746,000
At 31 March 2019	**610,710,675**	**312,890,213**

DIVIDEND

The Board has resolved not to recommend the payment of any dividend for the year ended 31 March 2019 (2018: Nil).

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the shareholders of the Company (the “Shareholders” and the “AGM”, respectively) will be held on Monday, 9 September 2019 and the notice of AGM will be published and despatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining Shareholders' entitlement to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from Wednesday, 4 September 2019 to Monday, 9 September 2019, both days inclusive. During this period, no transfer of shares of the Company (the “Shares”) will be registered. In order to be eligible to attend and vote at the forthcoming AGM, the non-registered Shareholders must lodge all transfer documents accompanied by the relevant share certificates with the Company’s share registrar, Tricor Standard Limited (the “Share Registrar”) for registration not later than 4:30 p.m. on Tuesday, 3 September 2019. The present address of the Share Registrar is Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong and its address as from 11 July 2019 will be Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

REVIEW OF OPERATIONS AND PROSPECTS

For the financial year ended 31 March 2019, the Group recorded a total revenue of approximately HK$52.4 million (2018: HK$52.6 million) and gross profit of approximately HK$13.5 million (2018: HK$10.2 million), representing a steady revenue with an increase in gross profit of approximately 32.4%. However, the securities investment portfolio has recorded a decrease in value amounted to HK$8.1 million versus a gain of HK$12 million last year. The loss for the year attributable to the owners of the Company amounted to approximately HK$9.6 million (2018: profit of approximately HK$7.4 million).

For the year under review, the total revenue of the Cheung Chau Warwick Hotel recorded approximately HK$20.6 million (2018: HK$21.4 million) with a profit contribution of approximately HK$2.3 million (2018: HK$2.8 million). The rooms department recorded an increase in revenue of approximately 4.9% while the food and beverage department recorded a decrease in revenue of approximately 14.7%. The decrease in food and beverage revenue under the period concerned is mainly affected by the drainage pipelines works carried out at the restaurant area.

For the year under review, the Group’s serviced property in Beijing, the PRC recorded a total revenue of approximately HK$30.1 million (2018: HK$28.9 million) with a profit contribution of approximately HK$10.2 million (2018: HK$8.4 million).

For securities investment and trading, the Group recorded a loss of approximately HK$7.3 million (2018: profit of approximately HK$12.8 million), which included a decrease of approximately HK$8.1 million (2018: increase of HK$12.0 million) in fair value of financial assets at fair value through profit or loss.

The Group recorded a net increase of approximately HK$9.3 million (2018: HK$7.4 million) in fair value of investment properties.

For the coming year, Cheung Chau Warwick Hotel has further program on renovating some of the common area and theming one of the hotel floor. More variety of packages and experience related tours will be developed in order to broaden our customer choice. As the serviced property in Beijing, we believe our management and services provide have been widely acknowledged and accepted by the local community. We have much confidence these properties can achieve high occupancy in the coming year.

As the future market condition may vary and difficult to predict, the Group will closely monitor the situation and make any necessary adjustment accordingly. The Group will continue to explore any other business opportunity for further expansion.

EMPLOYEES AND REMUNERATION POLICIES

At 31 March 2019, the Group had approximately 70 employees (2018: 70). Employees are remunerated in accordance with the nature of the job and market conditions. Staff incentive bonus would be granted to reward and motivate those well-performed employees. The Company adopted a new share option scheme on 2 September 2016 as an incentive to the Directors and other eligible participants. The Group also provides and arranges on-the-job training for the employees.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 March 2019, the Group had bank balances and cash of HK$14,139,430 (2018: HK$11,113,032), bank deposits with original maturity more than three months of HK$6,994,637 (2018: nil) and pledged bank deposits of HK$2,118,000 (2018: HK$2,118,000). which were mainly denominated in Hong Kong dollars and Reminbi.

At 31 March 2019, there were outstanding bank loans and utilised overdraft facilities of HK$26,522,475 (2018: HK$29,526,936) and unutilised overdraft facilities of HK$2,000,000 (2018: HK$6,000,000) available to the Group. All of outstanding bank loans and overdraft facilities were denominated in Hong Kong dollars with interest at prevailing market rates.

At 31 March 2019, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives.

Shareholders’ funds at 31 March 2019 amounted to approximately HK$285 million (2018: HK$294 million). Accordingly, the Group’s gearing ratio (total bank borrowings to shareholders’ funds) at 31 March 2019 was approximately 9.3 % (2018: 10.0%).

CONTINGENT LIABILITIES

At 31 March 2019, the Company had issued financial guarantees of HK$15,000,000 (2018: HK$15,000,000) to banks in respect of banking facilities granted to its subsidiaries, of which HK$14,349,792 (2018: HK$14,645,664) had been utilised by its subsidiaries.

CAPITAL COMMITMENTS

At 31 March 2019, the Group had capital commitments of approximately HK$465,842 (2018: HK$449,000).

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

During the year ended 31 March 2019, the Company did not redeem any of its Shares listed and traded on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a new code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Following a specific enquiry made by the Company with each Director, the Directors have confirmed that they had fully complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 March 2019.

CORPORATE GOVERNANCE

Throughout the year ended 31 March 2019, the Company has complied with all the code provisions of the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules, except for the following:

(a) Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The role of chairman is responsible for formulating and setting the Group's strategies and policies in conjunction with the Board.

The role of chief executive is responsible for managing the Group's strategic initiatives, investor relations, corporate and investor communications, mergers or acquisitions, and financing.

The post of the chairman of the Board (the "Chairman") has left vacant since 17 March 2015. Mr. Derek Chiu, an executive Director, assumes the roles and responsibilities of both the Chairman and the Managing Director and Chief Executive. The Board considers that the current structure of vesting the roles of the Chairman and the Managing Director and Chief Executive in the same person will not impair the balance of power and authority between the Board and the management of the Company.

(b) Code provision A.4.1 of the Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

None of the existing non-executive Directors is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all Directors are subject to retirement by rotation at each annual general meeting under articles 78 and 79 of the Company's articles of association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those provided in the Code.

AUDIT COMMITTEE

The audit committee of the Board is principally responsible for reviewing with the management of the Company the accounting principles and practices adopted by the Group and discussing auditing, risk management and internal control systems, and financial reporting matters, including the review of the consolidated financial statements. As at the date of this announcement, the audit committee comprises three independent non-executive Directors, namely Mr. Ng Wing Hang Patrick (chairman of the audit committee), Mr. Ip Shing Hing and Mr. Choy Wai Shek Raymond.

The Group's final results for the year ended 31 March 2019 have been reviewed by the audit committee which recommended the same to the Board for approval.

PRELIMINARY ANNOUNCEMENT OF AUDITED FINAL RESULTS

The financial information relating to the years ended 31 March 2019 and 2018 included in this preliminary announcement of final results for the year ended 31 March 2019 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory consolidated financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance, Chapter 622 of the laws of Hong Kong (the "Companies Ordinance") is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 March 2018 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 consolidated financial statements for the year ended 31 March 2019 in due course.

The Company's independent auditor has reported on the consolidated financial statements of the Group for the year ended 31 March 2019. The independent auditor's reports were unqualified; did not include a reference to any matters to which the independent 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.

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 and other comprehensive income and the related notes thereto for the year ended 31 March 2019 as set out in this preliminary announcement have been agreed by the Group's independent auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 March 2019. 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

By order of the Board
Far East Hotels and Entertainment Limited
Derek Chiu
Executive Director, Managing Director and Chief Executive

Hong Kong, 27 June 2019

As at the date of this announcement, the executive Directors are Mr. Derek Chiu (Managing Director and Chief Executive) and Ms. Amanda Chiu; the non-executive Directors are Madam Chiu Ju Ching Lan, Mr. Dick Tat Sang Chiu and Mr. Alex Chiu; the independent non-executive Directors are Mr. Ip Shing Hing, Mr. Ng Wing Hang Patrick and Mr. Choy Wai Shek Raymond.