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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

Interim Results For The Six Months Ended 30 September 2017

INTERIM RESULTS

The board of directors of Far East Hotels and Entertainment Limited (the “Company” and the “Board”, respectively) announces that the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2017 together with the relevant comparative figures are set out as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the six months ended 30 September 2017

	Notes	Six months ended 30 September	
		2017 (unaudited)	2016 (unaudited)
		HK\$	HK\$
Revenue	3	24,499,138	25,183,747
Cost of sales		(21,648,244)	(21,584,022)
Gross profit		2,850,894	3,599,725
Other gains and losses	5	9,402,310	3,544,656
Increase in fair value of investment properties		4,077,380	137,848
Administrative expenses		(7,895,695)	(6,739,927)
Finance costs	6	(425,043)	(480,534)
Share of results of associates		251,413	268,979
Share of results of a joint venture		-	(1,303,677)
Profit (loss) before taxation		8,261,259	(972,930)
Taxation	7	-	-
Profit (loss) for the period attributable to owners of the Company		8,261,259	(972,930)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (Continued)**

For the six months ended 30 September 2017

		Six months ended 30 September	
		2017	2016
		(unaudited)	(unaudited)
	Notes	HK\$	HK\$
Other comprehensive expense			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>2,221,835</u>	<u>(182,544)</u>
Total comprehensive income (expense) for the period attributable to owners of the Company		<u>10,483,094</u>	<u>(1,155,474)</u>
		HK Cents	HK Cents
Earnings (loss) per share	8		
- Basic		<u>1.36</u>	<u>(0.16)</u>
- Diluted		<u>1.35</u>	<u>(0.16)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

		30/09/2017 (unaudited)	31/03/2017 (audited)
	Notes	HK\$	HK\$
NON-CURRENT ASSETS			
Property, plant and equipment		64,065,266	61,849,304
Investment properties		177,081,908	171,699,285
Interests in associates		223,053	1,221,640
Promissory notes receivables		9,250,000	9,250,000
Paintings		3,921,217	3,921,217
		254,541,444	247,941,446
CURRENT ASSETS			
Investment securities		45,078,428	39,441,106
Inventories		474,220	454,405
Promissory notes receivables		6,000,000	12,000,000
Trade receivables	10	1,291,363	4,353,534
Other receivables, deposits and prepayments		5,026,307	1,720,799
Pledged bank deposits		2,118,000	2,118,000
Bank balances and cash		25,271,572	18,548,469
		85,259,890	78,636,313
CURRENT LIABILITIES			
Trade and other payables and accruals	11	13,874,153	9,411,059
Deposits received		398,952	357,084
Amounts due to directors		210,000	-
Amounts due to associates		127,381	752,381
Amounts due to related companies		698,166	713,031
Amount due to a non-controlling shareholder		1,235,730	1,182,699
Bank borrowings - due within one year	12	17,265,609	17,231,614
Obligations under a finance lease		369,354	361,501
		34,179,345	30,009,369
NET CURRENT ASSETS		51,080,545	48,626,944
		305,621,989	296,568,390

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*As at 30 September 2017*

		30/09/2017	31/03/2017
		(unaudited)	(audited)
	Notes	HK\$	HK\$
CAPITAL AND RESERVES			
Share capital	13	312,144,213	312,144,213
Reserves		(22,522,188)	(33,005,282)
		<u>289,622,025</u>	<u>279,138,931</u>
NON-CURRENT LIABILITIES			
Provision for long service payments		2,053,401	2,053,401
Obligations under a finance lease		514,360	700,994
Bank borrowings - due after one year	12	13,432,203	14,675,064
		<u>15,999,964</u>	<u>17,429,459</u>
		<u><u>305,621,989</u></u>	<u><u>296,568,390</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and should be read in conjunction with the annual financial statements for the year ended 31 March 2017.

The financial information relating to the year ended 31 March 2017 that is included in the half-year Interim Report 2017 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that 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 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 Companies Ordinance.

The Company’s independent auditor has reported on those financial statements. The independent auditor’s report was unqualified; did not include a reference to any matters to which the independent 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 Companies Ordinance.

2. Application of new and revised Hong Kong Financial Reporting Standards

The accounting policies used in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2017, except for those due to the application of the new and revised Standards, Amendments and Interpretations (collectively the “new and revised HKFRSs”) issued by the HKICPA. The adoption of these new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not adopted the new and revised HKFRSs that have been issued but are not yet effective.

In July 2014, HKFRS 15 *Revenue from Contracts with Customers* was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the accounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practical to provide an estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Except as described above, the directors of the Company anticipate that the application of other new and revised HKFRSs issued but not yet effective will have no material impact on the Group's financial performance and the Group's financial position for the future and/or on the disclosures set out in the financial statements of the Group.

3. Segment information

The Group's operating and reportable segments are as follows:

1. Hotel operation in Hong Kong
2. Serviced property letting in the People's Republic of China, excluding Hong Kong (the "PRC")
3. Property investment in Hong Kong
4. Property investment overseas
5. Securities investment and trading

Segment revenues and results

The following is an analysis of the Group's revenue and profit (loss) by operating segments:

	Hotel operation in Hong Kong HK\$	Serviced property letting in the PRC HK\$	Property investment in Hong Kong HK\$	Property investment overseas HK\$	Securities investment and trading HK\$	Total HK\$
<u>Six months ended</u>						
<u>30 September 2017 (unaudited)</u>						
Revenue	<u>10,389,215</u>	<u>12,912,865</u>	<u>393,288</u>	<u>803,770</u>	<u>-</u>	<u>24,499,138</u>
Segment profit	<u>653,815</u>	<u>2,656,228</u>	<u>3,054,930</u>	<u>563,301</u>	<u>9,281,642</u>	<u>16,209,916</u>
Unallocated gains and losses						<u>120,668</u>
Unallocated expenses						<u>(7,895,695)</u>
Unallocated finance costs						<u>(425,043)</u>
Share of results of associates						<u>251,413</u>
Profit before taxation						<u>8,261,259</u>
Taxation						<u>-</u>
Profit for the period						<u>8,261,259</u>
<u>Six months ended</u>						
<u>30 September 2016 (unaudited)</u>						
Revenue	<u>9,492,691</u>	<u>14,371,279</u>	<u>519,290</u>	<u>800,487</u>	<u>-</u>	<u>25,183,747</u>
Segment profit (loss)	<u>459,798</u>	<u>2,211,793</u>	<u>(1,008,183)</u>	<u>770,487</u>	<u>3,168,614</u>	<u>5,602,509</u>
Unallocated gains and losses						<u>376,043</u>
Unallocated expenses						<u>(6,739,927)</u>
Unallocated finance costs						<u>(480,534)</u>
Share of results of associates						<u>268,979</u>
Loss before taxation						<u>(972,930)</u>
Taxation						<u>-</u>
Loss for the period						<u>(972,930)</u>

Revenue from external customers by geographical location is analysed below:

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	HK\$	HK\$
Hong Kong	<u>10,782,503</u>	10,011,981
PRC	<u>12,912,865</u>	14,371,279
Overseas	<u>803,770</u>	800,487
	<u>24,499,138</u>	<u>25,183,747</u>

4. Profit (loss) before taxation

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	HK\$	HK\$
Profit (loss) before taxation has been arrived at after charging:		
Depreciation	4,130,179	5,929,002
Auditor's remuneration	475,000	440,000
Directors' remuneration and other staff costs		
Salaries, bonus and allowances	6,050,833	5,833,938
Retirement benefits cost	316,765	312,722
	6,367,598	6,146,660
Operating lease rentals in respect of rental premises	3,089,461	3,057,024
Share of taxation of associates (included in share of results of associates)	25,699	29,182
Cost of inventories recognised as an expense	2,764,665	1,833,255
and after crediting:		
Net rental income from properties	10,451,599	12,709,923

5. Other gains and losses

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	HK\$	HK\$
Dividend income from listed securities	751,062	353,941
Change in fair value of financial assets at fair value through profit or loss	8,530,580	2,814,672
Gain on disposal of property, plant and equipment	-	56,000
Bank interest income	3,961	76,407
Other interest income	116,707	243,636
	9,402,310	3,544,656

6. Finance costs

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	HK\$	HK\$
Interest on bank borrowings		
Wholly repayable within 5 years	177,637	195,107
Not wholly repayable within 5 years	228,876	261,773
Interest on finance leases	18,530	23,654
	<u>425,043</u>	<u>480,534</u>

7. Taxation

No provision for Hong Kong Profits Tax is required as the individual companies comprising the Group either incurred a loss or had tax losses to offset the assessable profits for both periods.

No provision for PRC Enterprise Income Tax is required as the subsidiary operating in the PRC either incurred a loss or had tax losses to offset the assessable profits for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

8. Earnings/loss per share

The calculation of basic and diluted earnings/loss per share is based on the profit attributable to owners of the Company for the period of HK\$8,261,259 (30/09/2016: loss of HK\$972,930) and the number of shares as calculated below:

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
Weighted average number of ordinary shares		
for the purpose of basic earnings/loss per share	607,710,675	602,110,675
Effect of dilutive potential ordinary shares		
- Company's share options	5,669,517	-
Weighted average number of ordinary shares		
for the purpose of diluted earnings/loss per share	<u>613,380,192</u>	<u>602,110,675</u>

The computation of the diluted loss per share for the corresponding period in prior year does not assume the exercise of the Company's share options because this would result in a decrease in the loss per share.

9. Dividends

The Board has resolved not to declare the payment of any interim dividend in respect of the six months ended 30 September 2017 (30/09/2016: Nil).

10. Trade receivables

Included in trade receivables were trade debtors of HK\$1,291,363 (31/03/2017: HK\$4,353,534), net of allowance for doubtful debts.

Trade debtors mainly comprise receivables from renting of properties and hotel operation. No credit is allowed to tenants for the use of the Group's properties. Rentals are payable on presentation of demand notes. 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 the trade debtors based on the invoice date:

	30/09/2017 (unaudited) HK\$	31/03/2017 (audited) HK\$
0 - 30 days	626,084	2,379,990
31 - 60 days	121,799	29,487
Over 60 days	543,480	1,944,057
	<u>1,291,363</u>	<u>4,353,534</u>

11. Trade and other payables and accruals

	30/09/2017 (unaudited) HK\$	31/03/2017 (audited) HK\$
Trade payables	790,467	794,502
Other payables and accruals	4,758,143	4,257,556
Receipt in advance	8,325,543	4,359,001
	<u>13,874,153</u>	<u>9,411,059</u>

Included in trade and other payables and accruals were trade creditors of HK\$790,467 (31/03/2017: HK\$794,502).

The following is an aged analysis of the trade creditors based on the invoice date:

	30/09/2017 (unaudited) HK\$	31/03/2017 (audited) HK\$
0 - 30 days	364,541	276,317
31 - 60 days	355,801	186,473
Over 60 days	70,125	331,712
	<u>790,467</u>	<u>794,502</u>

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

12. Bank borrowings

	30/09/2017 (unaudited) HK\$	31/03/2017 (audited) HK\$
Bank borrowings are secured and repayable as follows:		
Within one year	2,472,009	2,438,014
More than one year, but not exceeding five years	10,596,058	10,450,346
More than five years	2,836,145	4,224,718
	<u>15,904,212</u>	<u>17,113,078</u>
Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	14,793,600	14,793,600
	<u>30,697,812</u>	<u>31,906,678</u>
Less: Amount due within one year shown under current liabilities	(17,265,609)	(17,231,614)
Amount due after one year	<u>13,432,203</u>	<u>14,675,064</u>

13. Share capital

	Number of Shares	HK\$
Issued and fully paid:		
Ordinary shares with no par value		
At 1 April 2016	602,110,675	310,764,913
Exercise of share options	5,600,000	1,379,300
At 31 March and 30 September 2017	<u>607,710,675</u>	<u>312,144,213</u>

14. Operating lease

The Group as lessee:

At 30 September 2017, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	30/09/2017 (unaudited) HK\$	31/03/2017 (audited) HK\$
Within one year	6,006,795	5,608,861
In the second to fifth years inclusive	21,269,684	18,972,742
Over five years	9,885,842	11,826,988
	<u>37,162,321</u>	<u>36,408,591</u>

A subsidiary entered into an agreement with its non-controlling shareholder for the lease of its properties for a period of twenty-eight years at a fixed rent of RMB4,200,000 per year. The lease will expire on 30 September 2024.

The remaining lease is negotiated for a term of two years with fixed rental over the lease term.

The Group as lessor:

At 30 September 2017, the Group had contracted with tenants for the following future minimum lease payments:

	30/09/2017 (unaudited) HK\$	31/03/2017 (audited) HK\$
Within one year	30,749,774	8,940,610
In the second to fifth years inclusive	96,104,230	13,710,712
	<u>126,854,004</u>	<u>22,651,322</u>

The properties have committed tenants for a term of five years (31/03/2017: one to three years).

INTERIM DIVIDEND

The Board has resolved not to declare the payment of any interim dividend in respect of the six months ended 30 September 2017 (30/09/2016: Nil).

REVIEW OF OPERATIONS AND PROSPECTS

For the six months ended 30 September 2017, the Group recorded a total revenue of approximately HK\$24.5 million (2016: HK\$25.2 million) and a gross profit of approximately HK\$2.85 million (2016: HK\$3.60 million), representing a decrease of approximately 2.7% and 20.8% respectively. Profit for the period attributable to owners of the Company amounted to approximately HK\$8.26 million (2016: loss of HK\$0.97 million).

For the period under review, the Cheung Chau Warwick Hotel recorded a total revenue of approximately HK\$10.4 million (2016: HK\$9.5 million) with contributing profit of approximately HK\$654,000 (2016: HK\$460,000). The guest rooms department and the food and beverage department recorded increases in revenue of approximately 5% and 16% respectively.

The serviced property letting business in Beijing recorded a revenue of approximately HK\$12.91 million (2016: HK\$14.37 million) and a profit of approximately HK\$2.66 million (2016: HK\$2.21 million), representing a decrease of approximately 10.2% and an increase of approximately 20.4% respectively. The decrease was mainly due to the loss of revenue during the transitional period upon the leases renewal. The serviced property is now fully let. The existing leases will contribute a stable rental income stream to the Group in the coming years.

For securities investment, the Group recorded a profit of approximately HK\$9.3 million (2016: HK\$3.2 million), which included an increase of approximately HK\$8.5 million (2016: HK\$2.8 million) in fair value of investment securities. The Group continued deploying more resources in investment securities in a prudent manner with a view to gaining short-term investment returns for the period under review. The Group will continue to monitor the investment portfolio and balance investment risks from time to time to cope with the economic environment.

The market conditions are expected to remain challenging in the near future. The management will closely monitor and actively react to any changes as they arise. The Group will also from time to time seek business opportunities that can provide investment potential and broaden the income base of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2017, the Group had bank balances and cash of HK\$25,271,572 (31/03/2017: HK\$18,548,469) and pledged bank deposits of HK\$2,118,000 (31/03/2017: HK\$2,118,000), which were mainly denominated in Hong Kong dollars and Reminbi.

At 30 September 2017, there were outstanding bank loans and utilised overdraft facilities of HK\$30,697,812 (31/03/2017: HK\$31,906,678) and unutilised overdraft facilities of HK\$6,000,000 (31/03/2017: HK\$6,000,000) available to the Group. All outstanding bank loans and overdraft facilities were denominated in Hong Kong dollars with interest at prevailing market rates.

At 30 September 2017, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives.

Shareholders' funds at 30 September 2017 amounted to approximately HK\$289.6 million (31/03/2017: approximately HK\$279 million). Accordingly, the Group's gearing ratio (total bank borrowings to shareholders' funds) at 30 September 2017 was 10.6% (31/03/2017: 11.4%).

CONTINGENT LIABILITIES

At 30 September 2017, the Company had issued financial guarantees of HK\$18,000,000 (31/03/2017: HK\$18,000,000) to banks in respect of banking facilities granted to its subsidiaries, of which HK\$14,793,600 (31/03/2017: HK\$14,793,600) had been utilised by its subsidiaries.

CAPITAL COMMITMENTS

At 30 September 2017, the Group had no significant capital commitments (31/03/2017: Nil).

EMPLOYEES

At 30 September 2017, the Group had approximately 70 employees (31/03/2017: approximately 70 employees). 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 eligible participants defined thereunder.

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

During the six months ended 30 September 2017, the Company did not redeem any of its shares listed and traded on The Stock Exchange of Hong Kong Limited nor did the Company or any of its subsidiaries purchase or sell any of such shares.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2017, 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 and subject to re-election.

None of the non-executive directors of the Company was appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all directors of the Company are subject to retirement by rotation at annual general meetings 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.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Board comprises all of the 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 audit committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed financial reporting matters, including a review of the unaudited consolidated financial statements and the draft interim report of the Company for the six months ended 30 September 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board 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”) set out in Appendix 10 to the Listing Rules. Following specific enquiries made on them by the Company, all directors of the Company confirmed that they had fully complied with the required standards as set out in the Model Code and the Company’s code of conduct regarding directors’ securities transactions throughout the six months ended 30 September 2017.

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

Hong Kong, 28 November 2017

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