

SHUN CHEONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 650

2014 Interim Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

CAO Jing (*Executive Chairman*)

ZHANG Shaohua (*Managing Director*)

Non-executive Director

MO Tianquan

Independent Non-executive Directors

YE Jianping

PALASCHUK Derek Myles

WU Jiahong

AUDIT COMMITTEE

PALASCHUK Derek Myles (*Chairman*)

YE Jianping

WU Jiahong

REMUNERATION COMMITTEE

WU Jiahong (*Chairman*)

YE Jianping

CAO Jing

NOMINATION COMMITTEE

YE Jianping (*Chairman*)

PALASCHUK Derek Myles

CAO Jing

COMPANY SECRETARY

WANG Jing

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited

The Bank of East Asia, Limited

Bank of China Limited, Beihai Branch

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited

26 Burnaby Street

Hamilton HM11

Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716

17th Floor, Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

PRINCIPAL PLACE OF BUSINESS

Suite 2302, Wing On Centre

111 Connaught Road Central

Hong Kong

AUDITORS

SHINEWING (HK) CPA Limited

43/F., The Lee Gardens

33 Hysan Avenue

Causeway Bay, Hong Kong

STOCK CODE

SEHK 650

WEBSITE

<http://www.irasia.com/listco/hk/shuncheong>

CHAIRMAN'S STATEMENT

REVIEW OF OPERATION

For the period ended 30 September 2014, the Shun Cheong Group (the "Group") was mainly engaged in the hotel and restaurant operations of the Guangxi Wharton International Hotel Limited* (廣西沃頓國際大酒店有限公司) (the "Nanning Hotel") located in Guangxi Province, the PRC. During the period, the Group's revenue from the operation of the Nanning Hotel was improved by 13% to HK\$70.0 million (2013: HK\$61.9 million). The increase in revenue was mainly attributable to the recovery of the hotel normal operation from the large-scale decoration project, which has been completed by the end of last year. And the average occupancy rate has been increased by 58%. During the period, the Nanning Hotel reported an average room rate of HK\$729 (2013: HK\$873).

The gross profit was maintained around HK\$16.0 million (2013: HK\$15.9 million). However, the Group recorded a loss before tax of HK\$33.1 million (2013: HK\$3.7 million), including loss of HK\$20.4 million on modification of terms of convertible bond.

BUSINESS PROSPECT

According to the "12th Five-Year Plan for National Economic and Social Development*" (國民經濟和社會發展第十二個五年規劃摘要), it is the intention and policy of the government to further develop the tourism industry in the western China including Guangxi province.

The Beibu Gulf Economic rim is the common development pole for China-ASEAN, which is economically co-constructed, co-developed and shared area by countries of China-ASEAN. The local government is providing a wide range of tax benefits to attract domestic and foreign investments and is also applying the Free-Trade Zone for the area. A well-known tourist zone of Beibu Gulf rim (環北部灣旅遊區) was defined as the geographic area covering six cities of Guangxi province, and Nanning and Beihai are two strategically important cities of the tourist zone.

The Board believes that the hotel business in Nanning and Beihai will contribute positively to the Group. As introduced above, the management has finished the twelve-floors decoration of the Nanning Hotel and the hotel is providing the improved customer services and hotel facilities, which is a core competitive advantage to seize the growth opportunity in local tourism and restaurant industry. The hotel management is enhancing sales force regarding wedding banquet and related services as well.

In late April 2013, the Beihai Yintan No. 1 hotel, which is a part of the Yintan Project, launched formal operation. The special geographic location provides scene of the full seaview and silvery sand beach for the entertainment of the hotel guests. And the business development in Nanning Hotel and Beihai Yintan Project enables the Group take advantage of the synergy benefits brought by the urban integration in the Beibu Gulf.

CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

Liquidity and financial resources

The Group's cash and bank balances are mostly in Hong Kong dollars and Renminbi. As at 30 September 2014, the Group had unpledged cash and bank deposit balances of approximately HK\$30.5 million (31 March 2014: HK\$42.8 million). As at 30 September 2014, the Group had outstanding bank borrowings of HK\$237.1 million (31 March 2014: HK\$234.8 million). The gearing ratio of the Group which represented the total bank borrowings to the total assets was 37.6% (31 March 2014: 36.5%).

Because of the modification of terms of convertible bonds, as at 30 September 2014, the current liabilities have been decreased by HK\$116.3 million to HK\$350.0 million (31 March 2014: HK\$466.3 million). The second extension allows Shun Cheong Holdings Limited (the "Company") to have more certainty on its cash flow control without worrying any redemption demanded for the contractual settlement in short term, so that the Company could have more flexibility in operating its business.

Treasury and funding policy

The assets and liabilities of the Group are mainly denominated in Hong Kong dollars and Renminbi. The Group's bank borrowing is on a floating rate at the prime lending rate of the People's Bank of China. Taking into account of the expected cash flows of the Group's operations and cash and investment in marketable securities currently in hand, the Group expects that it will have sufficient working capital for its financial liabilities as they fall due. As the main operation of the Group is in the PRC, the Group has minimal exposure to foreign exchange fluctuation in Renminbi.

Pledge of assets

As at 30 September 2014, the hotel properties held with an aggregate carrying amount of approximately HK\$280 million (31 March 2014: HK\$283.0 million) were mortgaged to a bank to secure banking facilities granted to the Group.

Employees and remuneration policies

The Group employed approximately 595 employees as at 30 September 2014 (31 March 2014: 540). Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually depending on individual merits. The Group also provides other benefits including retirement benefit scheme, medical insurance and educational subsidies to all eligible staff.

By Order of the Board

Shun Cheong Holdings Limited

Cao Jing

Executive Chairman

Hong Kong, 27 November 2014

GENERAL INFORMATION

CORPORATE GOVERNANCE

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. On specific enquiries made, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2014.

Compliance with the Corporate Governance Code

In the opinion of the Board, the Company had complied with the applicable code provisions of the Corporate Governance Code (the "CG Code"), as set out in Appendix 14 to the Listing Rules during the interim period, except that:

1. CG Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. All the existing non-executive directors of the Company do not have a specific term of appointment but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-laws of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.
2. CG Code provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Board will ensure the retirement of each director, other than those hold office as Executive Chairman or Managing Director, by rotation at least once every three years in order to comply with the CG Code. The Board presently considers that the continuity of office of the Executive Chairman and the Managing Director provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. As a result, the Board concurred that the Executive Chairman and the Managing Director need not be subject to retirement by rotation.
3. CG Code provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting of the Company. The chairman did not attend the 2014 annual general meeting due to other business engagement. Another director of the Company had chaired the 2014 annual general meeting and answered questions from the shareholders together with chairman/member/duly appointed delegate of the audit committee, the remuneration committee and the nomination committee of the Company. In the opinion of the directors, the Company had provided a useful, effective and convenient forum for shareholders to exchange views with the Board and with each other, and had served the same purpose as laid down by CG Code.

Audit Committee

The Audit Committee comprises three directors, all of which are independent non-executive directors, namely Mr. Palaschuk Derek Myles (Chairman), Professor Ye Jianping and Mr. Wu Jiahong. Regular meetings have been held by the Audit Committee since establishment and it meets at least twice each year to review and supervise the Group's financial reporting process and internal control. The Company's interim results for the six months ended 30 September 2014 have not been audited, but have been reviewed by the Audit Committee.

GENERAL INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2014, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code, were as follows:

(a) Long positions in ordinary shares of the Company

| Name of director | Nature of interests | Number of ordinary shares beneficially owned | Percentage of the Company's issued share capital |
|------------------|---------------------|--|--|
| Mo Tianquan | Corporate | 209,753,409 <i>(Note 1)</i> | 60.39% |
| Cao Jing | Family | 209,753,409 <i>(Note 2)</i> | 60.39% |

Note 1: These shares are held by Upsky Enterprises Limited, a company in which Mr. Mo Tianquan is a director and a sole shareholder.

Note 2: Ms. Cao Jing is interested in the shares held by Upsky Enterprises Limited by virtue of her marital relationship with Mr. Mo Tianquan.

(b) Long positions in convertible bonds of the Company

| Name of director | Nature of interests | Number of underlying shares |
|------------------|---------------------|--------------------------------|
| Mo Tianquan | Corporate | 324,763,193 <i>(Note 1)</i> |
| Cao Jing | Family | 324,763,193 <i>(Note 2)</i> |

Note 1: The underlying shares represented the new ordinary shares to be issued upon full conversion of HK\$120,000,000 convertible bonds held by Tanisca Investments Limited, a company wholly-owned by Mr. Mo Tianquan, at a conversion price of HK\$0.3695 per share issued by the Company on 28 March 2008.

Note 2: Ms. Cao Jing is interested in the underlying shares held by Tanisca Investments Limited by virtue of her marital relationship with Mr. Mo Tianquan.

Save as disclosed above, as at 30 September 2014, none of the directors of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

GENERAL INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the six months ended 30 September 2014 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2014, the following interests in 5% or more of the issued share capital and underlying shares of the Company were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

(a) Long position in ordinary shares of the Company

| Name of shareholder | Capacity and nature of interests | Number of ordinary shares beneficially owned | Percentage of the Company's issued share capital |
|---------------------------|----------------------------------|--|--|
| Upsky Enterprises Limited | Directly beneficially owned | 209,753,409 | 60.39% |

(b) Long position in convertible bonds of the Company

| Name | Capacity and nature of interests | Number of underlying shares |
|-----------------------------|----------------------------------|-----------------------------|
| Tanisca Investments Limited | Directly beneficially owned | 324,763,193 (Note 1) |

Note 1: The underlying shares represented the new ordinary shares to be issued upon full conversion of HK\$120,000,000 convertible bonds held by Tanisca Investments Limited at a conversion price of HK\$0.3695 per share issued by the Company on 28 March 2008.

Save as disclosed above, as at 30 September 2014, no person, other than the directors of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2014, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2014

| | Notes | Six months ended 30 September | |
|--|-------|----------------------------------|---------------------------------|
| | | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Revenue | 3 | 70,026 | 61,891 |
| Cost of sales | | (54,011) | (45,976) |
| Gross profit | | 16,015 | 15,915 |
| Other income | | 441 | 1,106 |
| Administrative expenses | | (14,341) | (10,209) |
| Fair value gain (loss) on equity investment at fair value through profit or loss | | (3,836) | 4,867 |
| Finance costs | | (10,505) | (15,228) |
| Loss on modifications of terms of convertible bond | | (20,369) | - |
| Share of results of a joint venture | | (518) | (185) |
| Loss before tax | 4 | (33,113) | (3,734) |
| Income tax expense | 5 | - | (274) |
| Loss for the period | | (33,113) | (4,008) |
| Other comprehensive income: | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | (993) | 2,980 |
| Total comprehensive expense for the period | | (34,106) | (1,028) |
| Loss for the period attributable to: | | | |
| Owners of the Company | | (32,769) | (3,557) |
| Non-controlling interests | | (344) | (451) |
| | | (33,113) | (4,008) |
| Total comprehensive expense for the period attributable to: | | | |
| Owners of the Company | | (33,840) | (546) |
| Non-controlling interests | | (266) | (482) |
| | | (34,106) | (1,028) |
| Loss per share attributable to owners of the Company | | | |
| Basic and diluted | 6 | (HK 9.43 cents) | (HK 1.02 cents) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

| | | 30 September 2014 (Unaudited) HK\$'000 | 31 March 2014 (Audited) HK\$'000 |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 470,630 | 477,508 |
| Investment in a joint venture | | 93,016 | 93,536 |
| | | 563,646 | 571,044 |
| Current assets | | | |
| Inventories | | 2,426 | 2,219 |
| Trade receivables | 8 | 10,639 | 5,236 |
| Prepayments, deposits and other receivables | | 10,952 | 6,563 |
| Equity investment at fair value through profit or loss | | 9,565 | 13,400 |
| Deposit placed with financial institutions | | 2,491 | 2,326 |
| Bank balances and cash | | 30,459 | 42,793 |
| | | 66,532 | 72,537 |
| Current liabilities | | | |
| Trade payables | 9 | 14,286 | 13,572 |
| Other payables, accruals and deposits | | 79,483 | 90,066 |
| Provision for litigation | 13 | 167,978 | 166,606 |
| Amount due to related companies | | 941 | 924 |
| Tax payable | | 9,757 | 5,335 |
| Convertible bond | | – | 112,991 |
| Interest-bearing bank borrowing | | 77,558 | 76,814 |
| | | 350,003 | 466,308 |
| Net current liabilities | | (283,471) | (393,771) |
| Total assets less current liabilities | | 280,175 | 177,273 |
| Non-current liabilities | | | |
| Amounts due to related companies | | 11,101 | 10,921 |
| Convertible bond | 10 | 97,970 | – |
| Interest-bearing bank borrowing | | 159,529 | 157,999 |
| | | 268,600 | 168,920 |
| Net assets | | 11,575 | 8,353 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

| | | 30 September 2014 (Unaudited) HK\$'000 | 31 March 2014 (Audited) HK\$'000 |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| Capital and reserve | | | |
| Share Capital | 11 | 3,473 | 3,473 |
| Reserves | | 169 | (3,319) |
| | | <hr/> | <hr/> |
| Equity attributable to owners of the Company | | 3,642 | 154 |
| Non-controlling interests | | 7,933 | 8,199 |
| | | <hr/> | <hr/> |
| Total equity | | 11,575 | 8,353 |
| | | <hr/> | <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2014

| | Equity attributable to owners of the Company | | | | | | | | | | |
|---|--|----------------|---------------------------------|---------------------------------------|--|--|---------------------------|--------------------|--------------|--------------------------|---------------|
| | Issued capital | Share premium | Contributed surplus (Note a) | Equity component of convertible bonds | Capital redemption reserve (Note b) | Exchange fluctuation reserve (Note c) | Other reserve (Note d) | Accumulated losses | Total | Non-controlling interest | Total equity |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2013 | 3,473 | 119,068 | 46,909 | 52,225 | 132 | 22,854 | 1,362 | (47,895) | 198,128 | 8,683 | 206,811 |
| Loss for the period | - | - | - | - | - | - | - | (3,557) | (3,557) | (451) | (4,008) |
| Other comprehensive income for the period: | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | - | - | - | - | - | 3,011 | - | - | 3,011 | (31) | 2,980 |
| Total comprehensive income (expense) for the period | - | - | - | - | - | 3,011 | - | (3,557) | (546) | (482) | (1,028) |
| Release of exchange translation reserve upon deregistration of a subsidiary | - | - | - | - | - | (135) | - | - | (135) | - | (135) |
| Imputed interest released on non-current amount due to related companies | - | - | - | - | - | - | (175) | - | (175) | - | (175) |
| At 30 September 2013 (unaudited) | 3,473 | 119,068 | 46,909 | 52,225 | 132 | 25,730 | 1,187 | (51,452) | 197,272 | 8,201 | 205,473 |
| At 1 April 2014 | 3,473 | 119,068 | 46,909 | 52,225 | 132 | 22,527 | 1,013 | (245,193) | 154 | 8,199 | 8,353 |
| Loss for the period | - | - | - | - | - | - | - | (32,769) | (32,769) | (344) | (33,113) |
| Other comprehensive income for the period: | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | - | - | - | - | - | (1,071) | - | - | (1,071) | 78 | (993) |
| Total comprehensive expense for the period | - | - | - | - | - | (1,071) | - | (32,769) | (33,840) | (266) | (34,106) |
| Imputed interest released on non-current amount due to related companies | - | - | - | - | - | - | (180) | - | (180) | - | (180) |
| Derecognition upon modification of terms of convertible bond | - | - | - | (52,225) | - | - | - | - | (52,225) | - | (52,225) |
| Recognition upon modification of terms of convertible bond | - | - | - | 89,733 | - | - | - | - | 89,733 | - | 89,733 |
| At 30 September 2014 (unaudited) | 3,473 | 119,068 | 46,909 | 89,733 | 132 | 21,456 | 833 | (277,962) | 3,642 | 7,933 | 11,575 |

Notes:

- The contributed surplus of the Group represents the excess of the nominal value of the subsidiaries' shares acquired over the nominal value of the Company's shares issued in exchange at the time of the Group's capital reorganisation in 2006. Under the Companies Law of the Bermuda, the contributed surplus is distributable under certain specific circumstances.
- The capital redemption reserve represented the nominal value of the shares repurchased by the Company.
- The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.
- Other reserve represents a contribution from related companies resulting from the balances of interest-free loans, being the difference between the loan principal and the fair value of their liability component calculated upon initial recognition.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2014

| | Six months ended 30 September | |
|---|----------------------------------|-------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Net cash (outflow) inflow from operating activities | (4,595) | 15,099 |
| Net cash outflow from investing activities | (2,881) | (18,959) |
| Net cash outflow from financing activities | (8,380) | (9,359) |
| Net decrease in cash and cash equivalents | (15,856) | (13,219) |
| Cash and cash equivalents at beginning of period | 42,793 | 34,879 |
| Effect of foreign exchange rate changes | 3,522 | 2,529 |
| Cash and cash equivalents at end of period | 30,459 | 24,189 |
| Cash and cash equivalents of period, represented by | | |
| Bank balances and cash | 30,349 | 22,049 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 110 | 2,140 |
| | 30,459 | 24,189 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

1. BASIS OF PREPARATION

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the following facts and circumstances:

- (i) the Group incurred a loss for the period of approximately HK\$33,113,000 for the six months ended 30 September 2014; and
- (ii) The Group had net current liabilities of approximately HK\$283,471,000 as at 30 September 2014.

In view of above, the directors of the Company have adopted the following measures with a view to improve the Group's overall financial position:

- (i) the Group's principal banker shall continue to provide continuing financing to the Group under the Group's existing available facilities amounted to RMB162,000,000 (approximately HK\$202,338,000);
- (ii) Despite the loss of HK\$20,369,000 was caused by the modification of terms of the Convertible Bond as mentioned in note 10, which involves no actual cash outflows, the Group shall further tighten cost-saving measures to maintain adequate cash flows for the Group's operation; and
- (iii) As at 30 September 2014, the Group has already filed an appeal in relation to a civil judgement as mentioned in note 13. The relevant provision for the litigation of approximately HK\$167,978,000 had been made during the prior financial year ended 31 March 2014.

In light of the above, the directors of the Company are of the opinion that it is still appropriate to prepare the condensed consolidated financial statements for the six months ended 30 September 2014 on a going concern basis.

Should the Group be not able to continue to operate as a going concern, adjustments would be necessary to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The condensed consolidated financial statements have not incorporated any of these adjustments.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants 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").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2014.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

| | |
|--|--|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| HK (IFRIC) * – Interpretation 21 | Levies |

* *HK (IFRIC) represents the Hong Kong (International Financial Reporting Interpretations Committee)*

The application of the above new interpretation and amendments to HKFRSs in the interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these unaudited consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 17.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Amendments to HKAS 34 Interim Financial Reporting (as part of the Annual Improvements to HKFRSs 2009–2011 Cycle)

The Group has applied the amendments to HKAS 34 Interim Financial Reporting as part of the Annual Improvements to HKFRSs 2009–2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (CODM) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Since the CODM consider there is no material change on assets and liabilities of the Group's reportable segments for performance assessment and resource allocation purposes, the Group has not included total asset information as part of segment information.

The application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early adopted new and revised HKASs, HKFRSs, interpretations and amendments issued by the HKICPA that have been issued but are not yet effective for the current interim period.

3. SEGMENT INFORMATION

Information reported to the board of directors of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

For management purposes, the Group is currently organised into two major operating segments which are the same as the reportable segments of the group: hotel business and corporate and others.

The two reportable and operating segments are as follows:

| | | |
|----------------------|---|---|
| Hotel business | — | hotel and restaurant operations in the People's Republic of China (the "PRC") |
| Corporate and others | — | investment in equity investment at fair value through profit or loss, corporate income, expense items, corporate assets and liabilities |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

3. SEGMENT INFORMATION (CONTINUED)

Segment results:

| | For the six months ended 30 September | | | | | |
|--|---------------------------------------|-------------|----------------------|-------------|-----------------|-------------|
| | Hotel Business | | Corporate and others | | Total | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | |
| Sales to external customers | 70,026 | 61,891 | - | - | 70,026 | 61,891 |
| Other revenue | 240 | 965 | 201 | 141 | 441 | 1,106 |
| Revenue | 70,266 | 62,856 | 201 | 141 | 70,467 | 62,997 |
| Segment results | 4,130 | 9,355 | (6,369) | 2,139 | (2,239) | 11,494 |
| Finance costs | | | | | (10,505) | (15,228) |
| Loss on modifications of terms of convertible bond | | | | | (20,369) | - |
| | | | | | (33,113) | (3,734) |

4. LOSS BEFORE TAX

| | Six months ended 30 September | |
|---|-------------------------------|-------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Depreciation of property, plant and equipment | 14,430 | 13,393 |
| Minimum lease payments under operating leases in respect of office properties | 953 | 670 |
| Employee benefit expense (including directors' remuneration) | 17,661 | 15,304 |
| Loss on written off of plant and equipment | 5 | - |

5. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2013: Nil).

The tax charge on assessable profits in PRC was approximately HK\$274,000 for the six months ended 30 September 2013 (2014: Nil), which had been calculated at the tax rate of 25% under the Law of the People's Republic of China on Enterprise Income Tax in which the PRC subsidiaries operates.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

6. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic and diluted loss per share are based on:

| | Six months ended 30 September | |
|--|---------------------------------|---------------------------------|
| | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |

Loss:

| | | |
|--|-----------------|---------|
| Loss attributable to owners of the Company | (32,769) | (3,557) |
| Interest on convertible bond | 2,720 | 5,940 |
| | <hr/> | <hr/> |
| (Loss)/earnings for the purposes of diluted earnings per share | (30,049) | 2,383 |

| | Number of shares | |
|--|------------------|--------------|
| | 2014 '000 | 2013 '000 |

Number of shares:

| | | |
|--|----------------|---------|
| Weighted average number of ordinary shares for the purpose of the basic earnings per share | 347,326 | 347,326 |
| Effect of dilution of the convertible bond on the weighted average number of ordinary shares | 324,763 | 324,763 |
| | <hr/> | <hr/> |
| | 672,089 | 672,089 |

For the six months ended 30 September 2014 and 2013, because the diluted loss per share amount decreased when taking the convertible bond into account, the convertible bond had an anti-dilutive effect on the basic loss per share for the year and were ignored in the calculation of diluted loss per share. Therefore, diluted loss per share amounts are based on the loss for the period attributable to owners of the Company of approximately HK\$32,769,000 (2013: HK\$3,557,000) and the weighted average number of ordinary shares of 347,326,000 (2013: 347,326,000) in issue during the period.

7. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2014, the Group incurred approximately HK\$2,884,577 (2013: HK\$13,393,000) on acquisition of property, plant and equipment and net book value of approximately HK\$5,000 for the written off of property, plant and equipment (2013: HK\$25,000 for the disposal of property, plant and equipment). The written off of property, plant and equipment resulted in loss on written off of approximately HK\$5,000 (2013: loss on disposal of approximately HK\$1,000) during the six months ended 30 September 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

8. TRADE RECEIVABLES

| | 30 September 2014 (Unaudited) HK\$'000 | 31 March 2014 (Audited) HK\$'000 |
|-----------------------------------|---|---|
| Trade receivables | 25,587 | 20,184 |
| Less: allowance to doubtful debts | (14,948) | (14,948) |
| | 10,639 | 5,236 |

Settlement of trade receivables is in accordance with the terms specified in the contracts governing the relevant transactions. The Group allows credit period ranging from cash on delivery of services to 60 days. A longer credit period is granted to a few customers with long business relationship with the Group and with strong financial positions. The Group does not hold any collateral over these balances.

The following is an aged analysis of the trade receivables net of allowance for doubtful debts, based on the invoice dates at the end of the reporting period which approximated the respective revenue recognition dates:

| | 30 September 2014 (Unaudited) HK\$'000 | 31 March 2014 (Audited) HK\$'000 |
|----------------|---|---|
| Within 30 days | 7,766 | 2,793 |
| 31 to 60 days | 2,234 | 1,323 |
| 61 to 90 days | 213 | 68 |
| Over 90 days | 426 | 1,052 |
| | 10,639 | 5,236 |

9. TRADE PAYABLES

Ageing analysis of the Group's trade payables as the end of the reporting period presented based on the invoice date are as follows:

| | 30 September 2014 (Unaudited) HK\$'000 | 31 March 2014 (Audited) HK\$'000 |
|----------------|---|---|
| Within 30 days | 4,942 | 2,497 |
| 31 to 60 days | 2,247 | 2,308 |
| Over 60 days | 7,097 | 8,767 |
| | 14,286 | 13,572 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

10. CONVERTIBLES BOND

On 28 March 2008, the Company issued a five-year, 1% convertible bond with nominal value of HK\$120,000,000 (the "Bond") to Tanisca Investments Limited ("Tanisca"). Interest is payable half year in arrears. The Bond are convertible at any time from the first anniversary of the issue date to the maturity date of 28 March 2013, at the holder's option, into 200,000,000 ordinary shares of the Company at an initial conversion price of HK\$0.6 per share, subject to adjustments in certain events. The Bond may be redeemed at the option of the Company in whole or in part, upon written confirmation obtained from the bondholder in accordance with the terms of the Bond, or by the bondholder under certain circumstances. Unless previously redeemed, purchased and cancelled or converted, all the outstanding Bond will be converted into ordinary shares of the Company on the maturity date.

On 12 June 2008, the Company, by a rights issue, allotted and issued 208,395,600 ordinary shares of HK\$0.01 each at the price HK\$0.5 per share. As a result, the conversion price of the Bond was adjusted from HK\$0.6 per share to HK\$0.3695 per share, and the number of shares falling to be issued upon full conversion of the Bond was adjusted from 200,000,000 to 324,763,193 shares.

On 28 March 2013, the Group has entered into a deed of amendment ("Deed of Amendment") with the holder of the Bond to extend the maturity date of the Bond of principal amount of HK\$120,000,000 from 28 March 2013 to 28 March 2015. The conversion price remained at HK\$0.3695 per share and if any of the Bond has not been converted subsequently, it shall be redeemed on the extended maturity date on 28 March 2015. On 20 May 2013, the shareholders have duly passed the Deed of Amendment in special general meeting.

The fair value of the liability component of the Bond was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The effective interest rate of the Bond was 7% (2013: 11.16%) per annum. The residual amount was assigned as the equity component of the Bond and is included in shareholders' equity.

On 3 June 2014, the Group has entered into a deed of amendment (the "2nd Amendment") with the holder of the Bond to extend the maturity date of the Bond of principal amount of HK\$120,000,000 from 28 March 2015 to 30 April 2018. The conversion price remained at HK\$0.3695 per share and if any of the Bond has not been converted subsequently, it shall be redeemed on the extended maturity date on 30 April 2018 ("modification"). On 29 June 2014, the shareholders have duly passed the Deed of Amendment in special general meeting. Details are already set out in the Company's announcement on 12 June 2014 and 29 June 2014.

The modification resulted in the extinguishment of the financial liability of the Bond and the recognition of its new financial liability and equity components. The fair value of the new liability immediately following the modification was approximately HK\$96,863,000. The financial liability was determined using an effective interest rate of 7% (2013: 11.16%).

| | Liability component HK\$'000 | Equity component HK\$'000 | Total HK\$'000 |
|---|---------------------------------|------------------------------|-------------------|
| At 1 April 2013 | 106,458 | 52,225 | 158,683 |
| Interest expenses | 7,733 | - | 7,733 |
| Interest paid | (1,200) | - | (1,200) |
| At 31 March 2014 (audited) | 112,991 | 52,225 | 165,216 |
| At 1 April 2014 | 112,991 | 52,225 | 165,216 |
| Interest expenses | 2,720 | - | 2,720 |
| Derecognition of original liability/equity component | (114,002) | (52,225) | (166,227) |
| Recognition of new liability/equity component upon modification | 96,863 | 89,733 | 186,596 |
| Interest paid | (602) | - | (602) |
| At 30 September 2014 (unaudited) | 97,970 | 89,733 | 187,703 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

11. SHARE CAPITAL

| | As at 30 September 2014 (Unaudited) HK\$'000 | As at 31 March 2014 (Audited) HK\$'000 |
|--|--|--|
| Authorised: 8,000,000,000 ordinary shares of HK\$0.01 each | 80,000 | 80,000 |
| Issued and fully paid: 347,326,000 ordinary shares of HK\$0.01 each | 3,473 | 3,473 |

12. OPERATING LEASES COMMITMENTS

The Group leases various offices properties under non-cancellable operating lease agreements. At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | As at 30 September 2014 (Unaudited) HK\$'000 | As at 31 March 2014 (Audited) HK\$'000 |
|---|--|--|
| Within one year | 953 | 1,159 |
| In the second to fifth years, inclusive | – | 456 |
| | 953 | 1,615 |

13. LITIGATION

In prior year, an Ex-shareholder brought legal action against the subsidiary of the Company. The total claim amount and the estimated legal costs are approximately RMB124,810,000 (equivalents to HK\$155,888,000).

During the year, as explained in the announcement made by the Company on 24 June 2014, the subsidiary has received the civil judgement from the Intermediate People's Court Guangxi Zhuang Autonomous Region and the subsidiary was ordered to settle the compensation of approximately RMB110 million and corresponding indemnify based on the principal amount of RMB110 million at the People's Bank of China lending rate from 10 January 2011 and ending on the last day of the period as specified in the judgement to the Ex-shareholder. The subsidiary has filed an appeal for the civil judgement received in June 2014. The Company had made provision of RMB133,392,000 (approximately HK\$167,978,000).

14. DEREGISTRATION OF A SUBSIDIARY

On 12 April 2013, the Group's wholly-owned subsidiary, 廣西沃頓物業服務有限公司 was deregistered. The assets and liabilities of this deregistered subsidiary as at the date of deregistration were insignificant. This deregistered subsidiary had no material effect on the Group's turnover, results and cash flows for the six months ended 30 September 2013.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

15. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these condensed interim financial information, the Group had the following material transactions with related parties during the six months ended 30 September 2014 and 2013:

| Name of related party | Relationship | Nature of transaction | Six months ended 30 September | |
|-----------------------|---|---|---------------------------------|---------------------------------|
| | | | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Tanisca | Related parties in which certain directors of the Company have beneficial interests | Interest expenses on the Bonds paid or payable to a related company | 602 | 602 |

Note: Interest expense on the convertible bond was paid to Tanisca, the holder of the convertible bond, at 1% per annum. Tanisca is wholly owned by Mr. Mo Tianquan, who is a non-executive director and is also interested in approximately 60.39% of the total issued share capital of the Company as at 30 September 2014.

Mr. Mo Tianquan was thus a connected person (as defined under the Listing Rules) of the Company and the issue of the Bond constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. Details of the transaction and the terms of the Bonds were disclosed in a circular dated 21 November 2007 to all shareholders of the Company.

(b) Compensation of key management personnel

The remunerations of directors and other members of key management during the period were as follows:

| | Six months ended 30 September | |
|---------------------|---------------------------------|---------------------------------|
| | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Short-term benefits | 567 | 571 |

The remunerations of directors and key management were determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| Financial assets | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|--|--|---|----------------------|---|
| | 30/9/2014 | 31/3/2014 | | |
| Held-for-trading non-derivative financial assets classified as Equity investment at fair value through profit or loss in the statement of financial position | Listed securities in The New York Stock Exchange: — real estate Internet portal: HK\$9,564,750 | Listed securities in The New York Stock Exchange: — real estate Internet portal: HK\$13,400,400 | Level 1 | Quoted bid prices in an active market. |

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.