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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: 0037)

Announcement

Final Results For The Year Ended 31 March 2016

RESULTS

The board of directors (the "Board") 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 2016 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 2016

	Notes	2016 HK\$	2015 HK\$
Revenue	2	48,919,458	52,166,196
Cost of sales		(42,610,694)	(38,055,620)
Gross profit		6,308,764	14,110,576
Other income		1,323,400	1,235,054
Other gains and losses		(2,401,141)	(2,300,202)
Impairment loss on available-for-sale investments		-	(19,188,314)
Net increase (decrease) in fair values of investment properties		6,102,706	(46,560,401)
Administrative expenses		(24,230,395)	(15,705,095)
Finance costs	3	(1,008,214)	(1,082,458)
Share of results of associates		441,171	548,831
Share of result of a joint venture		2,913,822	924,822
Loss before tax	6	(10,549,887)	(68,017,187)
Income tax expense	4	-	-
Loss for the year attributable to owners of the Company		(10,549,887)	(68,017,187)
Other comprehensive expenses:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(84,949)	(1,390)
Total comprehensive expense for the year attributable to owners of the Company		(10,634,836)	(68,018,577)
LOSS PER SHARE	5	Cents	Cents
Basic		(1.76)	(11.50)
Diluted		(1.76)	(11.50)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2016

	Notes	2016 HK\$	2015 HK\$
Non-current assets			
Property, plant and equipment		67,818,199	75,280,739
Deposits for acquisition of property, plant and equipment		-	624,800
Investment properties		122,499,779	74,084,976
Interests in associates		760,046	318,875
Interest in a joint venture		17,361,441	14,447,619
Loan to a joint venture		8,445,940	8,178,303
Promissory notes receivables		15,250,000	-
Paintings		3,921,217	3,921,217
Available-for-sale investments		-	140,000,000
		<u>236,056,622</u>	<u>316,856,529</u>
Current assets			
Held-for-trading investments		16,070,838	19,026,811
Inventories		479,257	494,955
Promissory notes receivables		6,000,000	-
Trade receivables	7	5,013,088	4,728,804
Other receivables, deposits and prepayment		1,734,769	1,415,025
Pledged bank deposits		2,118,000	2,118,000
Bank balances and cash		68,269,628	1,211,943
		<u>99,685,580</u>	<u>28,995,538</u>
Current liabilities			
Trade and other payables and accruals	8	10,144,822	8,031,468
Deposits received		270,796	354,313
Amount due to an associate		442,381	105,381
Amounts due to related companies		717,236	737,441
Amount due to a non-controlling shareholder		3,780,151	6,880,444
Bank borrowings		17,165,542	17,745,838
Bank overdrafts		-	1,488,572
Obligation under a finance lease		133,652	125,945
		<u>32,654,580</u>	<u>35,469,402</u>
Net current assets (liabilities)		<u>67,031,000</u>	<u>(6,473,864)</u>
Total assets less current liabilities		<u>303,087,622</u>	<u>310,382,665</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*At 31 March 2016*

	Note	2016 HK\$	2015 HK\$
Capital and reserves			
Share capital	9	310,764,913	308,795,513
Reserves		<u>(27,084,677)</u>	<u>(20,323,027)</u>
		283,680,236	288,472,486
Non-current liabilities			
Provision for long service payments		2,053,401	2,053,401
Obligation under a finance lease		240,882	374,534
Bank borrowings		<u>17,113,103</u>	<u>19,482,244</u>
		19,407,386	21,910,179
		303,087,622	310,382,665

Notes

1. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

Application of amendments to HKFRSs

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 19	Defined Benefits Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to HKAS 1	Disclosure Initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptance Methods of Depreciation and Amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective for annual periods beginning on or after a date to be determined

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 "PRC")
- Property investment in Hong Kong
- Property investment overseas (new segment for the year ended 31 March 2016)
- Securities investment and trading

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and 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\$
2016						
Revenue	18,895,229	28,450,801	904,640	668,788	-	48,919,458
Segment profit (loss)	2,737,348	2,688,158	9,497,458	535,088	(1,988,092)	13,469,960
Unallocated gains and losses						643,891
Unallocated expenses						(24,096,695)
Unallocated finance costs						(1,008,214)
Share of results of associates						441,171
Loss before tax						(10,549,887)
Income tax expense						-
Loss for the year						(10,549,887)

	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\$
2015						
Revenue	22,399,712	29,270,364	496,120	-	-	52,166,196
Segment profit (loss)	4,704,971	9,128,568	(45,813,543)	-	(1,324,942)	(33,304,946)
Unallocated gains and losses						(23,504)
Unallocated expenses						(14,966,796)
Unallocated finance costs						(1,082,458)
Impairment loss on available-for-sale investments						(19,188,314)
Share of results of associates						548,831
Loss before tax						(68,017,187)
Income tax expense						-
Loss for the year						(68,017,187)

Geographical information

	Revenue from external customers		Non-current assets (Note)	
	2016	2015	2016	2015
	HK\$	HK\$	HK\$	HK\$
Hong Kong	19,799,869	22,895,832	159,957,303	135,575,958
The PRC	28,450,801	29,270,364	34,846,485	41,280,571
Overseas	668,788	-	41,252,834	-
	48,919,458	52,166,196	236,056,622	176,856,529

Note: Non-current assets exclude available-for-sale investments.

3. Finance costs

	2016 HK\$	2015 HK\$
Interests on borrowings and overdrafts	982,354	1,053,988
Interest on a finance lease	25,860	28,470
	<u>1,008,214</u>	<u>1,082,458</u>

4. Income tax expense

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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 PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate for the PRC subsidiary is 25% for both years. No provision for PRC Enterprise income tax is required as the subsidiary operating in the PRC has tax losses brought forward from prior years to offset the assessable profits.

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

5. Loss per share

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the loss for the year of HK\$10,549,887 (2015: HK\$68,017,187) and the number of shares as calculated below.

	2016	2015
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>600,530,074</u>	<u>591,632,593</u>

The computation of the diluted loss per share for the current and prior years does not assume the exercise of the Company's share options, because this would result in a decrease in the loss per share.

6. Loss before tax

	2016 HK\$	2015 HK\$
Loss before tax has been arrived at after charging:		
Auditor's remuneration		
- audit service	950,000	900,000
- non-audit services	399,000	1,529,000
Cost of inventories recognised as an expense	3,803,720	5,190,291
Depreciation of property, plant and equipment	7,587,814	7,853,288
Operating lease rentals in respect of rented premises	6,284,634	6,505,432
Staff costs:		
Directors' emoluments	5,354,555	1,680,235
Other staff:		
- Salaries and other allowances	9,746,062	9,776,354
- Retirement benefits scheme contributions	599,813	563,598
- Share-based payment expenses	997,416	-
	<u>16,697,846</u>	<u>12,020,187</u>
and crediting:		
Interest income (included in other income)		
- Bank deposits	120,020	6,447
- Promissory notes receivables	203,788	-
	<u>323,808</u>	<u>6,447</u>
Dividend income from held-for trading investments (included in other income)	406,035	945,309
Imputed interest income from loan to a joint venture (included in other income)	266,460	283,298
Net rental income from properties	<u>24,293,856</u>	<u>23,506,742</u>

7. Trade receivables

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 doubtful debts presented based on invoice dates at the end of the reporting period which approximately the respective date of rendering of services.

	2016	2015
	HK\$	HK\$
0 - 30 days	579,459	2,492,981
31 - 60 days	3,984,347	2,099,172
Over 60 days	449,282	136,651
	<u>5,013,088</u>	<u>4,728,804</u>

Trade receivables aged over 30 days are past due but are not impaired.

8. Trade and other payables and accruals

	2016	2015
	HK\$	HK\$
Trade payables	1,914,211	1,348,198
Other payables and accruals	3,916,466	5,262,844
Receipt in advance	4,314,145	1,420,426
	<u>10,144,822</u>	<u>8,031,468</u>

Included in trade and other payables and accruals are trade payables of HK\$1,914,211 (2015: HK\$1,348,198). The following is an aged analysis of the trade creditors based on invoice date:

	2016	2015
	HK\$	HK\$
0 - 30 days	281,293	675,052
31 - 60 days	283,029	237,554
Over 60 days	1,349,889	435,592
	<u>1,914,211</u>	<u>1,348,198</u>

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

9. Share capital

	Number of shares	HK\$
Issued and fully paid:		
Ordinary shares with no par value		
At 1 April 2014	591,410,675	308,099,513
Exercise of share options	3,000,000	696,000
At 31 March 2015	594,410,675	308,795,513
Exercise of share options	7,700,000	1,969,400
At 31 March 2016	602,110,675	310,764,913

10. Acquisition of assets through acquisition of subsidiaries

In August 2015, the Group acquired the entire issued share capital of Rise Vision Limited, which owns approximately 100% equity interest in Far East Beach Villa Limited (formerly known as Silver Autumn Beach Villa Limited) which in turn owns hotel properties in Fiji. Following the completion of the acquisition, Rise Vision Limited became a wholly-owned subsidiary of the Company. The assets acquired and liabilities assumed did not constitute a business combination as defined in HKFRS 3 "Business Combinations" and therefore, the acquisition was accounted for as assets acquisition.

The assets acquired and liabilities assumed in the transaction were as follows:

	HK\$
Investment properties	40,502,434
Inventories	60,633
Trade and other receivables	317,920
Bank balances and cash	47,110
Trade and other payables	(178,097)
Fair value of net assets acquired	40,750,000

The net assets acquired as set out above form part of the consideration of the disposal of the Group's available-for-sale investments, being 16.09% of the entire issued share capital of Warwick Holdings S.A.. The transaction consideration was determined after arm's length negotiation and the transactions were completed in August 2015. Details of the transaction are set out in an announcement and a circular of the Company dated 30 June 2015 and 22 July 2015 respectively.

Total consideration satisfied by:

	HK\$
Cash consideration received	78,000,000
Promissory notes receivables	21,250,000
Net assets of Rise Vision Limited acquired	40,750,000
Total consideration	140,000,000
Available-for-sale investment disposed of	(140,000,000)
	-
Net cash inflow arising on disposal:	
Cash consideration received	78,000,000
Cash and cash equivalents acquired	47,110
	78,047,110

DIVIDENDS

The Board does not recommend the payment of any dividend for the year (2015: Nil).

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the shareholders of the Company (the "AGM") will be held on 2 September 2016 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 31 August 2016 to 2 September 2016, both days inclusive. During this period, no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with Tricor Standard Limited, the Company's share registrar and transfer office at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 30 August 2016.

REVIEW OF OPERATIONS AND PROSPECTS

For the financial year ended 31 March 2016, the Group recorded a total revenue of approximately HK\$49 million (2015: HK\$52 million) and gross profit of approximately HK\$6.3 million (2015: HK\$14 million), representing decreases of approximately 6% and 55% respectively. Loss for the year attributable to the owners of the Company amounted to approximately HK\$10.5 million (2015: HK\$68 million).

For the year under review, the total revenue of the Cheung Chau Warwick Hotel decreased to approximately HK\$18.9 million (2015: HK\$22.4 million) with a profit contribution of approximately HK\$2.7 million (2015: HK\$4.7 million). The rooms department and the food and beverage department recorded decreases in revenue of approximately 17% and 13% respectively. The overall performance of the Cheung Chau Warwick Hotel was adversely affected by the decline in the number of visitors from the mainland China.

The total revenue of the serviced property in Beijing, the PRC decreased to approximately HK\$28.5 million (2015: HK\$29.3 million) with a profit contribution of approximately HK\$2.7 million (2015: HK\$9.1 million). The decrease in the profit of the serviced property letting in Beijing was mainly due to refurbishment expenses incurred for the serviced property and ancillary facilities for the year under review.

For securities investment and trading, the Group recorded a loss of approximately HK\$2.0 million (2015: HK\$1.3 million), which included a decrease of approximately HK\$2.4 million (2015: HK\$2.3 million) in fair values of held-for-trading investment.

The Group recorded a net increase of approximately HK\$6.1 million (2015: a net decrease of approximately HK\$46.6 million) in fair values of investment properties.

Included in administrative expenses were share-based payment expenses of approximately HK\$3.9 million (2015: Nil) recognised upon grant of share options and professional fees of approximately HK\$3.5 million incurred in relation to the disposal of the entire available-for-sale investments.

The Company disposed of the entire available-for-sale investments during the year for a consideration of HK\$140 million which was satisfied by the purchaser (i) by HK\$78 million in cash; (ii) through the issuance of the promissory notes of HK\$21.25 million; and (iii) by the assignment of the benefit of the purchaser's loan and the transfer of the entire issued share capital of Rise Vision Limited to the Company. Rise Vision Limited owns Far East Beach Villa Limited which in turn owns hotel properties in Fiji. The properties are classified as investment properties. Details of this transaction are disclosed in the Company's announcement and circular dated 30 June 2015 and 22 July 2015 respectively.

Following the realisation of the available-for-sale investments, the Group has greater flexibility to deploy resources to explore business opportunities that can provide investment potential and broaden the income base of the Group in the long term.

The market conditions of the hotel business in Hong Kong remain challenging for the coming year. The relative strength of Hong Kong dollars and the increased competition from other countries have made shopping in and travelling to Hong Kong less appealing. The Group will closely monitor and actively react to any changes as they arise. Furthermore, the Group will continue to strengthen its marketing efforts to extend its customer base and improve the quality of the service to meet the customers' needs.

EMPLOYEES

As at 31 March 2016, the Group had approximately 70 employees (2015: 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.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 March 2016, the Group had bank balances and cash of HK\$68,269,628 (2015: HK\$1,211,943) and pledged bank deposits of HK\$2,118,000 (2015: HK\$2,118,000).

At 31 March 2016, there were outstanding bank loans and utilised overdraft facilities of HK\$34,278,645 (2015: HK\$38,716,654) and unutilised overdraft facilities of approximately HK\$6,000,000 (2015: HK\$4,511,000) available to the Group.

At 31 March 2016, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives.

Shareholders' funds at 31 March 2016 amounted to approximately HK\$284 million (2015: approximately HK\$288 million). Accordingly, the Group's gearing ratio (total bank borrowings to shareholders' funds) at 31 March 2016 was 12% (2015: 13%).

CONTINGENT LIABILITIES

At 31 March 2016, the Company had issued financial guarantees of HK\$18,000,000 (2015: HK\$18,000,000) to banks in respect of banking facilities granted to its subsidiaries, of which HK\$14,793,600 (2015: HK\$15,436,800) has been utilised by its subsidiaries.

CAPITAL COMMITMENTS

At 31 March 2016, the Group had no significant capital commitments (2015: HK\$551,800).

MATERIAL ACQUISITIONS OF SUBSIDIARIES

On 14 August 2015, the Group acquired the entire issued share capital of Rise Vision Limited at a consideration of HK\$40,750,000 as part of the consideration of the disposal of available-for-sale investments. Rise Vision Limited owns Far East Beach Villa Limited which in turn owns hotel properties in Fiji. The properties are classified as investment properties. Details of this transaction are disclosed in the Company's announcement and circular dated 30 June 2015 and 22 July 2015 respectively.

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

During the year ended 31 March 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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") 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, the directors have confirmed that they had fully complied with the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 March 2016.

CORPORATE GOVERNANCE

Throughout the year ended 31 March 2016, 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.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.

- (b) Code provision E.1.2 of the Code stipulates that the chairman of the Board should attend the annual general meeting.

The Company has had no chairman of the Board since 17 March 2015. However, one of the directors of the Company present at the annual general meeting held on 31 August 2015 was elected chairman thereof to ensure an effective communication with the shareholders thereat.

AUDIT COMMITTEE

The audit committee of the Company is principally responsible for reviewing with the management of the Company the accounting principles and practices adopted by the Group and discussing auditing, internal controls, 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 2016 have been reviewed by the audit committee which recommended the same to the Board for approval.

PRELIMINARY ANNOUNCEMENT OF AUDITED ANNUAL RESULTS

The financial information relating to the years ended 31 March 2016 and 2015 included in this preliminary announcement of annual results 2016 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 Hong Kong Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 March 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 March 2016 in due course.

The Company's independent auditor has reported on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 March 2016. 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 Hong Kong 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 2016 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. 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
Managing Director and Chief Executive

Hong Kong, 28 June 2016

As at the date of this announcement, the executive directors are Mr. Derek Chiu, 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; the independent non-executive directors are Mr. Ip Shing Hing, Mr. Ng Wing Hang Patrick and Mr. Choy Wai Shek Raymond.