



Associated International Hotels Limited

Stock Code: 105

INTERIM REPORT

2021

for the six months ended 30 September 2021

Associated International Hotels Limited

Interim Report

(Expressed in Hong Kong dollars)

The Board of Directors would like to announce the unaudited consolidated results of the Group for the half year ended 30 September 2021. These results have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), by KPMG, certified public accountants in Hong Kong, and the audit committee with no disagreement. The unmodified review report of the auditor is attached.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the six months ended 30 September 2021 – unaudited

	Note	<i>Six months ended 30 September</i>	
		2021	2020
		\$'000	\$'000
Revenue	3	159,743	242,414
Cost of services		(44,715)	(55,050)
		<hr/>	<hr/>
Gross profit		115,028	187,364
Other revenue	5	2,358	5,720
Other net loss	5	(5)	(4)
Administrative expenses		(17,507)	(14,916)
		<hr/>	<hr/>
Profit from operations before valuation changes in investment properties		99,874	178,164
Valuation losses on investment properties	10(b)	(573,864)	(784,129)
		<hr/>	<hr/>
Loss from operations after valuation changes in investment properties		(473,990)	(605,965)
Finance costs	6(a)	(1,038)	(1,818)
		<hr/>	<hr/>
Loss before taxation	6	(475,028)	(607,783)
Income tax	7	(16,330)	(28,382)
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Loss and total comprehensive income for the period attributable to equity shareholders of the Company		(491,358)	(636,165)
		<hr/>	<hr/>
Loss per share – basic and diluted	9	\$(1.36)	\$(1.77)
		<hr/>	<hr/>

The notes on pages 5 to 9 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 8.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 September 2021 – unaudited

	Note	At 30 September 2021	At 31 March 2021
		\$'000	\$'000
Non-current assets			
Fixed assets	10		
– Investment properties		9,835,970	10,408,610
– Other properties, plant and equipment		56,269	58,093
		<u>9,892,239</u>	<u>10,466,703</u>
Current assets			
Accounts receivable, deposits and prepayments	11	167,227	188,314
Current tax recoverable		–	7,886
Pledged bank deposits		9,332	21,801
Cash and cash equivalents	12	500,303	373,697
		<u>676,862</u>	<u>591,698</u>
Current liabilities			
Other payables and accruals	13	27,010	30,488
Deposits received		148,443	151,333
Provision for long service payments		1,487	1,505
Bank loan – secured		–	200,000
Dividends payable		68,400	–
Current tax payable		4,273	–
		<u>249,613</u>	<u>383,326</u>
Net current assets		<u>427,249</u>	<u>208,372</u>
Total assets less current liabilities		10,319,488	10,675,075
Non-current liabilities			
Bank loan – secured		200,000	–
Government lease premiums payable		1,649	1,649
Deferred tax liabilities		100,198	96,027
		<u>301,847</u>	<u>97,676</u>
NET ASSETS		<u>10,017,641</u>	<u>10,577,399</u>
CAPITAL AND RESERVES			
Share capital		360,000	360,000
Reserves		9,657,641	10,217,399
TOTAL EQUITY		<u>10,017,641</u>	<u>10,577,399</u>

The notes on pages 5 to 9 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 September 2021 – unaudited

	<i>Attributable to equity shareholders of the Company</i>				
	<i>Share capital</i>	<i>Revaluation reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>	
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	
	<i>Note</i>				
Balance at 1 April 2020		360,000	1,778,150	10,144,753	12,282,903
Changes in equity for the six months ended 30 September 2020:					
Loss and total comprehensive income for the period		–	–	(636,165)	(636,165)
Dividends approved in respect of the previous financial year	8(b)	–	–	(90,000)	(90,000)
Balance at 30 September 2020 and 1 October 2020		360,000	1,778,150	9,418,588	11,556,738
Changes in equity for the six months ended 31 March 2021:					
Loss and total comprehensive income for the period		–	–	(889,339)	(889,339)
Dividends declared in respect of the current financial year	8(a)	–	–	(90,000)	(90,000)
Balance at 31 March 2021 and 1 April 2021		360,000	1,778,150	8,439,249	10,577,399
Changes in equity for the six months ended 30 September 2021:					
Loss and total comprehensive income for the period		–	–	(491,358)	(491,358)
Dividends approved in respect of the previous financial year	8(b)	–	–	(68,400)	(68,400)
Balance at 30 September 2021		<u>360,000</u>	<u>1,778,150</u>	<u>7,879,491</u>	<u>10,017,641</u>

The notes on pages 5 to 9 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 September 2021 – unaudited

	<i>Six months ended 30 September</i>	
	2021	2020
	\$'000	\$'000
Operating activities		
Cash generated from operations	115,046	113,791
Tax paid	–	(17,898)
	<hr/>	<hr/>
Net cash generated from operating activities	115,046	95,893
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Investing activities		
Payment for purchase of fixed assets other than investment properties	(277)	(226)
Payment for expenditure on investment properties	(1,224)	(419)
Decrease/(increase) in pledged bank deposits	12,469	(10,202)
Other cash flows arising from investing activities	1,769	5,222
	<hr/>	<hr/>
Net cash generated from/(used in) investing activities	12,737	(5,625)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Financing activities		
Other cash flows arising from financing activities	(1,177)	(1,964)
	<hr/>	<hr/>
Net cash used in financing activities	(1,177)	(1,964)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net increase in cash and cash equivalents	126,606	88,304
Cash and cash equivalents at 1 April	373,697	421,903
	<hr/>	<hr/>
Cash and cash equivalents at 30 September	500,303	510,207
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The notes on pages 5 to 9 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 26 November 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2021, except for the accounting policy changes that are expected to be reflected in the consolidated financial statements for the year ending 31 March 2022. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the consolidated financial statements for the year ended 31 March 2021. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 18.

The financial information relating to the financial year ended 31 March 2021 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 March 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. However, none of these developments are relevant to the Group.

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

3 Revenue

The principal activity of the Group is property investment.

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

The Group's customer base is diversified and includes two customers with whom transactions have exceeded 10% of the Group's revenue during the six months ended 30 September 2021. Revenue from these customers amounted to approximately \$19,660,000 and \$18,961,000 respectively. During the six months ended 30 September 2020, the Group did not include any customers with whom transactions had exceeded 10% of the Group's revenue.

4 Segment information

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

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

5 Other revenue and net loss

	<i>Six months ended 30 September</i>	
	<i>2021</i>	<i>2020</i>
	<i>\$'000</i>	<i>\$'000</i>
Other revenue		
Interest income	1,746	4,312
Management fee received from holding company	600	600
Compensation from early termination of leases	–	743
Others	12	65
	<u>2,358</u>	<u>5,720</u>
Other net loss		
Net loss on disposals of fixed assets	<u>(5)</u>	<u>(4)</u>

6 Loss before taxation

Loss before taxation is arrived at after charging:

	<i>Six months ended 30 September</i>	
	2021	<i>2020</i>
	\$'000	\$'000
(a) Finance costs		
Interest on bank loan	893	1,672
Other borrowing costs	125	125
Interest on government lease premiums payable	20	21
	<u>1,038</u>	<u>1,818</u>
(b) Other items		
Depreciation charge	2,096	2,120
Impairment losses on accounts receivable	1,553	13,957
	<u>1,553</u>	<u>13,957</u>

7 Income tax

	<i>Six months ended 30 September</i>	
	2021	<i>2020</i>
	\$'000	\$'000
Current tax		
Hong Kong Profits Tax	12,159	24,262
Deferred tax		
Origination and reversal of temporary differences	4,171	4,120
	<u>4,171</u>	<u>4,120</u>
	<u>16,330</u>	<u>28,382</u>

The provision for Hong Kong Profits Tax is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the six months ended 30 September 2021, except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime. For the Company, the first \$2,000,000 of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated at the same basis in 2020.

8 Dividends

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

	<i>Six months ended 30 September</i>	
	<i>2021</i>	<i>2020</i>
	<i>\$'000</i>	<i>\$'000</i>
Interim dividend declared after the interim period of \$0.19 per share (2020: \$0.25 per share)	<u>68,400</u>	<u>90,000</u>

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

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

	<i>Six months ended 30 September</i>	
	<i>2021</i>	<i>2020</i>
	<i>\$'000</i>	<i>\$'000</i>
Final dividend in respect of the previous financial year, approved during the following interim period, of \$0.19 per share (year ended 31 March 2020: \$0.25 per share)	<u>68,400</u>	<u>90,000</u>

9 Loss per share – basic and diluted

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of \$491,358,000 (2020: \$636,165,000) and 360,000,000 (2020: 360,000,000) ordinary shares in issue during the period. There were no potential dilutive ordinary shares in existence during the six months ended 30 September 2021 and 2020.

10 Fixed assets

- (a) During the period, additions in the investment properties amounted to \$1,224,000 (six months ended 30 September 2020: \$419,000).
- (b) The investment properties in Hong Kong were revalued at 30 September 2021 by Vigers Appraisal and Consulting Limited, an independent firm of professional valuers who have among their staff Fellows of The Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued, on a market value basis. The fair value of investment properties was determined using income capitalisation approach which capitalised the net rental income of the properties and taking into account the occupancy rate and reversionary income potential of properties after the expiry of the current leases. As a result of the update, valuation losses of \$573,864,000 (2020: \$784,129,000) on investment properties have been recognised in the consolidated statement of profit or loss and other comprehensive income. The valuation losses will only affect the accounting profit or loss but not the cash flows of the Group.
- (c) Fixed assets of the Company with carrying value of \$9,689,963,000 as at 30 September 2021 (31 March 2021: \$10,260,320,000) were pledged to secure banking facilities of up to \$300,000,000 granted to the Company. The outstanding bank loan was \$200,000,000 as at 30 September 2021 (31 March 2021: \$200,000,000).

11 Accounts receivable, deposits and prepayments

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

	At 30 September 2021 \$'000	<i>At 31 March 2021 \$'000</i>
Current (Note)	119,504	142,364
Less than 1 month past due	10,821	11,608
1 to 3 months past due	18,410	17,759
More than 3 months but less than 12 months past due	6,358	9,334
More than 12 months past due	1,217	399
Amounts past due	36,806	39,100
Total accounts receivable, net of allowance for credit losses	156,310	181,464
Deposits and prepayments	10,917	6,850
	167,227	188,314

Note: The amount includes the receivable for lease incentives of \$118,833,000 (31 March 2021: \$142,186,000) which is not past due. The movement in the said receivable during the period will only affect the accounting revenue but not the contractual cash flows of the Group.

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

12 Cash and cash equivalents

	At 30 September 2021 \$'000	<i>At 31 March 2021 \$'000</i>
Deposits with banks	409,331	353,457
Cash at bank and in hand	90,972	20,240
	500,303	373,697

13 Other payables and accruals

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

14 Commitments

Capital commitments outstanding at the end of the reporting period not provided for in the interim financial report were as follows:

	At 30 September 2021 \$'000	<i>At 31 March 2021 \$'000</i>
Contracted for	198	-

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved that an interim dividend of \$0.19 per share (2020: \$0.25 per share) will be paid on Friday, 7 January 2022 to members whose names appear on the register of members of the Company on Friday, 17 December 2021. The register of members of the Company will be closed for the purpose of determining entitlement to the said interim dividend from Wednesday, 15 December 2021 to Friday, 17 December 2021, both days inclusive, during which period no transfer of shares will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. (Hong Kong time) on Tuesday, 14 December 2021.

BUSINESS REVIEW AND COMMENTARY

- The Group achieved a profit from operations before valuation changes in investment properties of \$99.9 million for the half year ended 30 September 2021, representing a decrease of approximately 43.9% compared with the corresponding period of last year. The decrease was mainly due to amortisation of the rental concessions granted to most of the tenants of iSQUARE since the outbreak of COVID-19. All rental concessions are amortised over the remaining terms of the respective leases in accordance with accounting standard. In addition, the reduction in both iSQUARE occupancy rate and rental further reduced the rental income from iSQUARE for the period under review.
- Valuation losses on investment properties for the half year ended 30 September 2021 amounted to \$573.9 million, compared with the valuation losses of \$784.1 million for the corresponding period of last year. The valuation losses will only affect the accounting profit or loss but not the cash flows of the Group.
- The Group recorded a loss attributable to equity shareholders of \$491.4 million for the half year ended 30 September 2021, compared with a loss attributable to equity shareholders of \$636.2 million for the corresponding period of last year.
- iSQUARE is a commercial complex housing retail, entertainment, food and beverage establishments. Rental income from iSQUARE amounted to approximately \$159.7 million for the half year ended 30 September 2021, representing a decrease of approximately 34.1% compared with the corresponding period of last year. The occupancy rate at 30 September 2021 was approximately 76.2% (30 September 2020: 82.8%).
- The total equity for the Group at 30 September 2021 was \$10,017.6 million, compared with \$10,577.4 million at 31 March 2021.
- On 7 October 2013, the Company entered into a facility agreement with a bank comprising of a 3-year term loan facility of up to \$200 million and a 3-year revolving loan facility of up to \$100 million both at floating interest rate. Following the first supplemental agreement for extension of the facilities to 8 October 2021, the Company entered into the second supplemental agreement with the bank on 23 August 2021 for extension of the facilities for three years to 8 October 2024. The Company has an option to further extend the facilities for two additional years to 8 October 2026, subject to, among other things, the agreement of the lending bank. At 30 September 2021, the banking facilities were utilised to the extent of \$200 million (31 March 2021: \$200 million) and the Group's gearing ratio (calculated as total bank loans divided by total equity) was 2.0% (31 March 2021: 1.9%).

BUSINESS REVIEW AND COMMENTARY (Continued)

- At 30 September 2021, the total number of employees of the Group, excluding the staff employed by Cushman & Wakefield Property Management Limited for general building and property management of iSQUARE, was 37 (30 September 2020: 38) and the related costs incurred during the period were approximately \$13.3 million (30 September 2020: \$10.7 million). The increase in the related costs was mainly attributable to the wage subsidy under the Employment Support Scheme of the Hong Kong government granted in the corresponding period of last year.
- Save as disclosed in this report, there has been no further material change to the information contained in the Company's annual report for the year ended 31 March 2021 which necessitates additional disclosure to that made herein.

OUTLOOK

Despite various supportive factors to the local retail sector in recent months including the stabilising of local pandemic, the growing of employment and the introduction of the Consumption Voucher Scheme, the management expects these positive impacts to be short term and would not have an immediate stimulating effect on the local leasing market. As a result, the rental income from iSQUARE and the results from operations of the Group for the second half year are expected to continue to be adversely affected.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2021, the directors and chief executives of the Company and their associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules")) had the following interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"):

(a) The Company

<i>Name</i>	<i>Number of ordinary shares</i>			<i>% of total issued voting shares</i>
	<i>Personal interests</i>	<i>Family interests</i>	<i>Total beneficial interests</i>	
Cheong Hooi Hong	2,073,992	–	2,073,992	0.58%
Cheong Kheng Lim	24,555,715	1,034,000	25,589,715	7.11%
Cheong Keng Hooi	11,759,839	275,280	12,035,119	3.34%
Cheong Sim Lam	1,807,155	24,000	1,831,155	0.51%
Cheong Chong Ling	1,588,000	–	1,588,000	0.44%

**INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES,
UNDERLYING SHARES AND DEBENTURES** (Continued)

(b) Tian Teck Land Limited

<i>Name</i>	<i>Number of shares</i>			<i>% of total issued voting shares</i>
	<i>Personal interests</i>	<i>Family interests</i>	<i>Total beneficial interests</i>	
Cheong Hooi Hong	4,035,792	590,000	4,625,792	0.97%
Cheong Kheng Lim	46,023,872	115,292	46,139,164	9.72%
Cheong Keng Hooi	26,862,036	1,002,384	27,864,420	5.87%
Cheong Sim Lam	1,099,504	–	1,099,504	0.23%
Cheong Chong Ling	412,000	–	412,000	0.09%

(c) Tian Teck Investment Holding Co., Limited

<i>Name</i>	<i>Number of ordinary shares</i>			<i>% of total issued voting shares</i>
	<i>Personal interests</i>	<i>Family interests</i>	<i>Total beneficial interests</i>	
Cheong Hooi Hong	25	–	25	25%
Cheong Kheng Lim	25	–	25	25%
Cheong Keng Hooi	25	–	25	25%
Cheong Sim Lam	25	–	25	25%

Save as disclosed above, as at 30 September 2021, none of the directors and chief executives of the Company or their associates (as defined in the Listing Rules) had interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2021, other than the interests of the directors and chief executives of the Company as disclosed above, the Company has been notified of the following interests in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

	<i>Number of ordinary shares</i>	<i>Percentage of total issued voting shares</i>
Tian Teck Investment Holding Co., Limited	180,030,681 (Note 1)	50.01%
Tian Teck Land Limited	180,030,681 (Note 1)	50.01%
Cheong Kheng Lim	25,589,715 (Note 2)	7.11%
Lim Yoke Soon	25,589,715 (Note 2)	7.11%

Notes:

- (1) The register of interests and short positions in shares kept under section 336 of the SFO indicates that the interest disclosed by Tian Teck Investment Holding Co., Limited is the same as the 180,030,681 shares disclosed by Tian Teck Land Limited.
- (2) The interest disclosed by Mr Cheong Kheng Lim is the same as the 25,589,715 shares disclosed by Ms Lim Yoke Soon. Out of the 25,589,715 shares, 24,555,715 shares were held by Mr Cheong Kheng Lim, and 1,034,000 shares were held by his spouse, Ms Lim Yoke Soon.

Save as disclosed above, as at 30 September 2021, no other interests or short positions in the shares and underlying shares of the Company required to be recorded in the register kept by the Company under section 336 of the SFO have been notified to the Company.

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

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 September 2021.

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Due to allowances for expenses actually incurred, the directors' emoluments of the following directors for the six months ended 30 September 2021 have changed when compared with those for the last corresponding period:

- Mr Cheong Hooi Hong's emoluments increased by \$167,000 to \$937,000.
- Mr Cheong Kheng Lim's emoluments increased by \$38,000 to \$1,190,000^{Note 1}, of which, \$951,000 (2020: \$955,000) was covered by his service contract with the Company as chief operation officer.
- Mr Cheong Keng Hooi's emoluments increased by \$976,000 to \$1,805,000.
- Mr Cheong Sim Lam's emoluments decreased by \$80,000 to \$826,000.
- Miss Cheong Chong Ling's emoluments decreased by \$206,000 to \$785,000^{Note 2}, of which, \$539,000 (2020: \$543,000) was covered by her service contract with the Company as chief administration officer.

Despite the above changes, the Company's policy regarding the said expenses has not changed.

Notes:

- (1) Excluding the benefit in respect of the residential property provided by the Company pursuant to the director's service contract. As at 30 September 2021, the estimated annual rental value of the property was \$1,293,000 (30 September 2020: \$1,485,000).
- (2) Excluding the benefit in respect of the residential property provided by the Company pursuant to the director's service contract. As at 30 September 2021, the estimated annual rental value of the property was \$1,281,000 (30 September 2020: \$1,485,000).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company throughout the six months ended 30 September 2021 complied with all the code provisions, where applicable, set out in the Corporate Governance Code in Appendix 14 to the Listing Rules, except for the deviations as disclosed hereunder:

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

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

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

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

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (Continued)

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

At present, the Company does not have an internal audit function. The Board reviewed the need for setting up an internal audit function in March 2021 and considered that there was no such an immediate need after taking into account the Group's current circumstances, such as the focused nature and geographical spread of business, the relatively simple operating structure and small size of the Group and the close involvement and supervision of the management in daily operation, which could provide sufficient risk management and internal control for the Group. Despite it, the Board has taken initiatives to promote the adequacy and effectiveness of the risk management and internal control systems by creating a control environment across the Group (such as building up a corporate culture based on sound business ethics and accountability through the implementation of "whistle-blowing" arrangements and procedure manuals with defined roles, responsibilities and reporting lines) and putting control activities in place (such as conducting group-wide risk assessment exercise biannually). In addition, where the external auditor of the Company considers any internal controls that are relevant to the audit of the financial statements, it will report to the audit committee any significant deficiencies in internal control identified during the audit.

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code for dealing in securities in the Company by its Directors. Specific enquiry has been made to all Directors of the Company as to whether they have complied with or whether there has been any non-compliance with the Model Code, and all Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 September 2021.

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

Hong Kong, 26 November 2021

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



**REVIEW REPORT TO THE BOARD OF DIRECTORS OF
ASSOCIATED INTERNATIONAL HOTELS LIMITED**

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 1 to 9 which comprises the consolidated statement of financial position of Associated International Hotels Limited as of 30 September 2021 and the related consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2021 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 November 2021