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亞證地產有限公司

ASIASEC PROPERTIES LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 271)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2018

The board of directors (“Board”) of Asiasec Properties Limited (“Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the six months ended 30th June, 2018 with the comparative figures for the corresponding period in 2017 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the six months ended 30th June, 2018

		(Unaudited)	
		Six months ended 30th June,	
		2018	2017
	Notes	HK\$'000	HK\$'000
Revenue	(4)	30,791	29,953
Other income		3,132	2,614
Other gains and losses	(5)	830	753
Rent and rates		(929)	(469)
Building management fees		(3,190)	(3,151)
Staff costs, including directors' remuneration		(5,848)	(6,440)
Depreciation and amortisation		(492)	(1,629)
Repairs and maintenance		(419)	(347)
Administrative expenses		(4,174)	(2,968)
Operating profit before change in fair value of investment properties		19,701	18,316
Change in fair value of investment properties		14,028	42,352
Operating profit		33,729	60,668
Share of profits of associates		46,667	65,690
Profit before income tax	(6)	80,396	126,358
Income tax expenses	(7)	(2,239)	(10,836)
Profit for the period		78,157	115,522
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic and diluted	(9)	6.30	9.30

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30th June, 2018

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
Profit for the period	<u>78,157</u>	<u>115,522</u>
Other comprehensive (expense) income:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Surplus on revaluation of		
– Land and building	–	59,552
– Land use rights	–	3,700
	–	63,252
Changes in fair value of equity instrument at fair value through other comprehensive income	(193)	572
Deferred tax effect on revaluation	–	(2,475)
	(193)	61,349
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Currency translation differences	96	(50)
Other comprehensive (expense) income for the period, net of tax	(97)	61,299
Total comprehensive income for the period	<u>78,060</u>	<u>176,821</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30th June, 2018

		(Unaudited) 30th June, 2018 HK\$'000	(Audited) 31st December, 2017 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		3,333	3,647
Investment properties		1,341,343	1,326,939
Land use rights		10,066	10,151
Associates		2,771,068	2,724,401
Available-for-sale financial assets		–	49,298
Equity instrument at fair value through other comprehensive income		38,605	–
Club membership		10,500	–
		4,174,915	4,114,436
Current assets			
Debtors, prepayments, deposits and other receivables	(10)	9,039	8,783
Loan receivable		28,571	28,235
Amounts due from associates		121,238	222,717
Non-pledged time deposits with original maturity of over three months		–	73,323
Cash and cash equivalents		334,774	447,088
		493,622	780,146
Total assets		4,668,537	4,894,582
EQUITY			
Share capital		681,899	681,899
Reserves		3,789,294	4,021,498
Total equity		4,471,193	4,703,397
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		162,378	161,407
Current liabilities			
Creditors and accruals	(11)	27,056	26,940
Amounts due to associates		4,760	1,288
Income tax payable		3,150	1,550
		34,966	29,778
Total liabilities		197,344	191,185
Total equity and liabilities		4,668,537	4,894,582

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Reviewed by auditor

The interim financial report of the Group for the six months ended 30th June, 2018 has been reviewed by our auditor, Deloitte Touche Tohmatsu, 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”) and an unmodified review conclusion has been issued.

(2) Basis of preparation

The condensed consolidated financial statements for the six months ended 30th June, 2018 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA and comply with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

The Company has delivered the financial statements for the year ended 31st December, 2017 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (“CO”). The Company’s auditor has reported on those financial statements for 2017. 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 CO.

(3) Significant Accounting Policies

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, in the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1st January, 2018 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 “Financial Instruments” with HKFRS 4 “Insurance Contracts”
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The application of the above amendments to HKFRSs in the current period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements except for described below.

(3) **Significant Accounting Policies (continued)**

Impacts and changes in accounting policies of application on HKFRS 9 “Financial Instruments”

Reclassification of available-for-sale-financial assets

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as available-for-sale financial assets. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK\$38,798,000 was reclassified from available-for-sale financial assets to equity instrument at fair value through other comprehensive income. The fair value gains of HK\$28,743,000 relating to those investments previously carried at fair value continued to accumulate in revaluation reserve. In addition, club membership of HK\$10,500,000 were reclassified from available-for-sale-financial assets to club membership.

(4) **Revenue and segment information**

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
Rental income from investment properties	24,647	22,598
Estate management fees	4,644	5,855
Dividend income from equity instrument at fair value through other comprehensive income	1,500	1,500
	30,791	29,953

The Group's revenue has been disaggregated as (i) rental income from investment properties; (ii) estate management fees; and (iii) dividend income from equity instrument at fair value through other comprehensive income.

Revenue from investment properties and estate management fee which is recognised over time. Revenue from dividend income which is recognised at a point in time.

The chief operating decision-maker has been identified as the executive director of the Company. The executive director regards the Group's business as a single operating segment, which is property leasing and estate management and reviews financial information accordingly. Therefore, no segment analysis of the Group's revenue and contribution to operating profit and segment assets and liabilities are presented.

As at 30th June, 2018, the total of non-current assets other than associates, equity instrument at fair value through other comprehensive income and club membership, located in Hong Kong is HK\$1,310,253,000 (31st December, 2017: HK\$1,296,687,000), and the total of non-current assets located in Mainland China is HK\$44,489,000 (31st December, 2017: HK\$44,050,000).

(5) Other gains and losses

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
Net exchange gain	854	781
Gain (loss) on disposal of property, plant and equipment	1	(28)
Provision for amount due from an associate	(25)	–
	<u>830</u>	<u>753</u>

(6) Profit before income tax

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
Profit before income tax is arrived at after charging (crediting):		
Outgoings of investment properties that generated rental income	4,190	3,873
Outgoings of investment properties that did not generate rental income	74	24
Interest income on bank deposits	(2,132)	(2,325)
Interest income from loan receivable	(1,000)	(147)
	<u>(1,000)</u>	<u>(147)</u>

(7) Income tax expenses

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for the period. Taxation on profits generated in Mainland China has been provided at the relevant rates of taxation prevailing in Mainland China.

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
Current income tax		
Hong Kong	1,600	1,501
Deferred income tax	639	9,335
	<u>2,239</u>	<u>10,836</u>

(8) Dividends

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
Dividend recognised as distribution during the period:		
Special dividend of HK\$0.25 per ordinary share	–	310,606
Second interim dividend in respect of 2017 of HK\$0.25 (six months ended 30th June, 2016: in respect of 2016 of HK\$Nil) per ordinary share	<u>310,264</u>	<u>–</u>
	<u>310,264</u>	<u>310,606</u>

The Board of the Company has resolved not to declare any interim dividend for the six months ended 30th June, 2018 (six months ended 30th June, 2017: HK\$0.25 per ordinary share).

(9) Earnings per share

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following:

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
Earnings		
Earnings attributable to the owners of the Company for the purposes of calculation of basic and diluted earnings per share	<u>78,157</u>	<u>115,522</u>

	(Unaudited)	
	Six months ended 30th June,	
	2018	2017
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculation of basic and diluted earnings per share	<u>1,241,055</u>	<u>1,242,425</u>

The diluted earnings per share equals the basic earnings per share since there are no dilutive potential shares in issue during both periods.

(10) Debtors, prepayments, deposits and other receivables

	(Unaudited) 30th June, 2018 <i>HK\$'000</i>	(Audited) 31st December, 2017 <i>HK'000</i>
Trade debtors	877	1,055
Other debtors	7,088	5,557
Prepayments and deposits	1,074	2,171
	<u>9,039</u>	<u>8,783</u>

Trade debtors represent rental income and estate management fees receivables and are receivable on presentation of debit notes. The ageing of these trade debtors of the Group, net of provisions and in accordance with the revenue recognition date, is as follows:

	(Unaudited) 30th June, 2018 <i>HK\$'000</i>	(Audited) 31st December, 2017 <i>HK'000</i>
Within 30 days	<u>877</u>	<u>1,055</u>

(11) Creditors and accruals

	(Unaudited) 30th June, 2018 <i>HK\$'000</i>	(Audited) 31st December, 2017 <i>HK\$'000</i>
Trade creditors	463	333
Other creditors	10,607	10,127
Tenants deposits	13,109	12,750
Accrued operating expenses	2,877	3,730
	<u>27,056</u>	<u>26,940</u>

The ageing of the trade creditors of the Group and in accordance with invoice date is as follows:

	(Unaudited) 30th June, 2018 <i>HK\$'000</i>	(Audited) 31st December, 2017 <i>HK\$'000</i>
Within 30 days	<u>463</u>	<u>333</u>

(12) Operating lease arrangements

The Group as lessor:

As at 30th June, 2018, certain investment properties are leased out for a period of 2 years from the date of commencement of operating lease.

The Group had contracted with tenants for the following future minimum lease payments:

	(Unaudited) 30th June, 2018 <i>HK\$'000</i>	(Audited) 31st December, 2017 <i>HK\$'000</i>
Within one year	29,872	41,388
Between one to five years	27,173	24,957
	57,045	66,345

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group recorded a revenue of HK\$30,791,000 for the six months ended 30th June, 2018, which represented an increase of approximately HK\$838,000 or 2.8% as compared with the same period in 2017. The increase in revenue was mainly attributable to an increase of rental income from investment properties.

The profit attributable to equity holders for the six months ended 30th June, 2018 was HK\$78,157,000 whereas profit of HK\$115,522,000 was made for the same period in 2017. The decrease in profit was mainly resulting from a decrease in fair value gain of investment properties held by the Group and a decrease in share of profits of associates mainly resulting from a decrease in fair value gain of The Redhill Peninsula properties in the associate.

Business Review

The Group's core businesses comprise property investment, property leasing and estate management in Hong Kong.

For the six months ended 30th June 2018, the Group's commercial properties situated at Harbour Crystal Centre recorded an average occupancy level of approximately 99% and the performance of rental income was satisfactory.

In respect of the residential properties held by the associate (33.33% owned) situated at The Redhill Peninsula, 3 houses sold in 2017 have been completed for sales for the six months ended 30th June 2018. The remaining 41 houses are being launched for sale in batches in the year of 2018.

The Group's industrial properties situated at Ap Lei Chau, Hong Kong, the Harbour Industrial Centre and the Oceanic Industrial Centre held by the associate (33.33% owned) recorded an average occupancy level of approximately 57% and the rental income was performed moderately.

Financial Review

Group Assets and Charges

The total assets of the Group have decreased from HK\$4,894,582,000 as at 31st December, 2017 to HK\$4,668,537,000 as at 30th June, 2018. The net assets of the Group have decreased from HK\$4,703,397,000 as at 31st December, 2017 to HK\$4,471,193,000 as at 30th June, 2018. At 30th June, 2018, no investment properties of the Group in Hong Kong (31st December, 2017: Nil) were pledged as security for banking facilities. The Group has no bank loan, but will undergo a discussion with the bank for the arrangement of banking facilities and the bank has agreed to provide banking facilities if necessary.

Group Financial Position, Liquidity and Financial Resources

The total liabilities of the Group have increased from HK\$191,185,000 as at 31st December, 2017 to HK\$197,344,000 as at 30th June, 2018. The Group had cash and bank balances of HK\$334,774,000 as at 30th June, 2018 (31st December, 2017: HK\$520,411,000). The ratio of total liabilities to total assets was approximately 4% (2017: 4%). As at 30th June, 2018, the Group had no bank loans (31st December, 2017: Nil) and the total equity was HK\$4,471,193,000 (31st December, 2017: HK\$4,703,397,000).

As at 30th June, 2018, the current assets of the Group, amounting to HK\$493,622,000 (31st December, 2017: HK\$780,146,000), which exceeded its current liabilities by HK\$458,656,000 (31st December, 2017: HK\$750,368,000).

For the six months ended 30th June, 2018, the Group had no significant exposure to fluctuations in exchange rates and related hedges and there were no contingent liabilities.

Employees

As at 30th June, 2018, the Group, excluding associates, had 36 (31st December, 2017: 39) employees, which were all employed in Hong Kong.

In addition to basic salaries, employees are provided with medical insurance and some of them are included under a defined contribution provident fund scheme and mandatory provident fund scheme.

Business Outlook

Real estate market conditions in general continued to improve in 2018. Residential and prime office sale prices in Hong Kong reached new highs.

There is a future risk of indirect negative effects from the ongoing ‘trade war’ between the United States and China. However, the Group expects the rebound in mainland Chinese visitors to Hong Kong to support healthy retail sales. This should benefit the businesses located in Harbour Crystal Centre. The Group therefore expects lease contract renewals to be at moderately higher rates.

The Group’s remaining 41 houses situated at The Redhill Peninsula held by the associate (33.33% owned) continue to be launched for sale in batches. The Group have received feedback from agents that many potential buyers would prefer to fit out the houses themselves. The Group will now offer this option to future buyers on selective units.

The Group will continue to monitor local and overseas market conditions and target attractive investment opportunities for long-term acquisitions. The Group will also remain proactive in our operations and continue to be prudent in managing our finances.

INTERIM DIVIDEND

The Board considers that it is prudent to retain an appropriate level of funds to take advantage of business opportunities as and when they arise, and therefore does not intend to declare an interim dividend for the six months ended 30th June 2018 (2017: HK\$25 cents per share).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six months ended 30th June, 2018, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (“CG Code”) as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

(1) Code Provisions B.1.2 and C.3.3

Code provisions B.1.2 and C.3.3 of the CG Code stipulate that the terms of reference of the remuneration committee and audit committee should include, as a minimum, those specific duties as set out in the respective code provisions.

The terms of reference of the remuneration committee (“Remuneration Committee”) adopted by the Company are in compliance with the code provision B.1.2 of the CG Code except that the Remuneration Committee shall make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to executive directors and senior management under the code provision).

The terms of reference of the audit committee (“Audit Committee”) adopted by the Company are in compliance with the code provision C.3.3 of the CG Code except that the Audit Committee (i) shall recommend (as opposed to implement under the code provision) the policy on the engagement of the external auditors to supply non-audit services; (ii) only possesses the effective ability to scrutinise (as opposed to ensure under the code provision) whether management has performed its duty to have effective risk management and internal control systems; and (iii) can promote (as opposed to ensure under the code provision) the co-ordination between the internal and external auditors, and check (as opposed to ensure under the code provision) whether the internal audit function is adequately resourced.

The reasons for the above deviations were set out in the Corporate Governance Report contained in the Company’s Annual Report for the financial year ended 31st December, 2017. The Board considers that the Remuneration Committee and the Audit Committee should continue to operate according to the relevant terms of reference as adopted by the Company. The Board will review the terms at least annually and make appropriate changes if considered necessary.

(2) Code Provision E.1.2

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting and also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

Due to another business engagement, Mr. Patrick Lee Seng Wei, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 23rd May, 2018. However, Mr. Edwin Lo King Yau, an Executive Director of the Company, took the chair of that meeting and all Independent Non-Executive Directors including chairmen of the audit, remuneration and nomination committees were present thereat and were available to answer questions to ensure effective communication with the shareholders of the Company.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30th June, 2018. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditor 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 HKICPA as well as reports obtained from management. The Audit Committee has not undertaken detailed independent audit checks.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30th June, 2018.

On behalf of the Board
Asiasec Properties Limited
Edwin Lo King Yau
Executive Director

Hong Kong, 15th August, 2018

As at the date of this announcement, the Board comprises Mr. Patrick Lee Seng Wei (Chairman), Mr. Lee Shu Yin (Chief Executive), Mr. Edwin Lo King Yau and Mr. Tao Tsan Sang being the Executive Directors; and Mr. Li Chak Hung, Mr. Choi Kin Man and Ms. Lisa Yang Lai Sum being the Independent Non-Executive Directors.