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CHEVALIER INTERNATIONAL HOLDINGS LIMITED

其士國際集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 25)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

The Directors of Chevalier International Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2016, together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

	Note	Unaudited	
		Six months ended 30 September	
		2016	2015
		HK\$'000	HK\$'000
Revenue	3	2,508,609	3,033,136
Cost of sales		(2,079,722)	(2,229,512)
Gross profit		428,887	803,624
Other income, net	4	52,827	21,636
Other losses, net	5	(16,974)	(121,777)
Selling and distribution costs		(45,753)	(301,631)
Administrative expenses		(145,733)	(128,118)
Operating profit		273,254	273,734
Share of results of associates		49,279	66,636
Share of results of joint ventures		(2,198)	(4,855)
		320,335	335,515
Finance income	6	10,030	11,711
Finance costs	6	(50,429)	(51,059)
Finance costs, net	6	(40,399)	(39,348)
Profit before taxation	7	279,936	296,167
Taxation	8	(67,508)	(63,308)
Profit for the period		212,428	232,859
Attributable to:			
Shareholders of the Company		190,729	204,964
Non-controlling interests		21,699	27,895
		212,428	232,859
Earnings per share			
– basic (HK\$ per share)	9	0.63	0.68
– diluted (HK\$ per share)	9	0.63	0.68

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016**

	Unaudited	
	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Profit for the period	212,428	232,859
Other comprehensive (expenses)/income for the period		
Items that may be reclassified subsequently to profit or loss		
Exchange difference on translation of operations of overseas subsidiaries, associates and joint ventures	(129,730)	(130,118)
Change in fair value of available-for-sale investments	10,502	(22,441)
Impairment loss on available-for-sale investments transferred to condensed consolidated income statement	–	4,445
Fair value adjustments on the derivative financial instruments designated as cash flow hedge in respect of interest rate swap contracts	(42)	(9,337)
Other comprehensive expenses for the period, net of tax	(119,270)	(157,451)
Total comprehensive income for the period	93,158	75,408
Attributable to:		
Shareholders of the Company	79,254	54,507
Non-controlling interests	13,904	20,901
	93,158	75,408

Note: Items shown within other comprehensive (expenses)/income are disclosed net of tax.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016**

	Note	Unaudited 30 September 2016 HK\$'000	Audited 31 March 2016 HK\$'000
Non-current assets			
Investment properties		3,643,103	3,663,625
Property, plant and equipment		1,866,205	1,899,365
Goodwill		629,014	629,014
Other intangible assets		7,630	3,135
Interests in associates		909,417	921,070
Interests in joint ventures		516,882	520,705
Available-for-sale investments		129,881	129,428
Properties under development		1,121,919	1,128,747
Deferred tax assets		22,437	18,547
Other non-current assets		84,546	121,123
		8,931,034	9,034,759
Current assets			
Amounts due from associates		13,488	18,074
Amount due from a joint venture		37,594	59
Amounts due from non-controlling interests		24,219	25,039
Investments at fair value through profit or loss		588,504	505,848
Inventories		111,610	136,317
Properties for sale		1,111,328	1,233,028
Properties under development		458,952	342,077
Debtors, deposits and prepayments	11	1,192,572	1,087,487
Amounts due from customers for contract work		111,417	119,283
Derivative financial instruments		1,060	1,606
Prepaid tax		8,005	6,834
Bank balances and cash		2,105,243	2,009,282
		5,763,992	5,484,934

		Unaudited	Audited
		30 September	31 March
		2016	2016
	Note	HK\$'000	HK\$'000
Current liabilities			
Amount due to an associate		–	240
Amount due to a joint venture		56,128	53,230
Amounts due to customers for contract work		1,053,471	934,670
Derivative financial instruments		8,943	9,557
Creditors, bills payable, deposits and accruals	12	1,354,402	1,297,737
Unearned insurance premiums and unexpired risk reserves		74,884	80,976
Outstanding insurance claims		335,350	352,519
Deferred income		18,313	17,227
Current income tax liabilities		100,542	62,964
Bank borrowings		532,581	960,852
		<u>3,534,614</u>	<u>3,769,972</u>
Net current assets		<u>2,229,378</u>	<u>1,714,962</u>
Total assets less current liabilities		<u>11,160,412</u>	<u>10,749,721</u>
Capital and reserves			
Share capital		377,411	377,411
Reserves		7,300,563	7,372,273
Shareholders' funds		7,677,974	7,749,684
Non-controlling interests		496,916	488,571
Total equity		<u>8,174,890</u>	<u>8,238,255</u>
Non-current liabilities			
Unearned insurance premiums		60,872	80,560
Bank borrowings		2,643,225	2,151,684
Deferred tax liabilities		281,425	279,222
		<u>2,985,522</u>	<u>2,511,466</u>
Total equity and non-current liabilities		<u>11,160,412</u>	<u>10,749,721</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 March 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

2. PRINCIPAL ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are consistent with those as described in the annual consolidated financial statements for the year ended 31 March 2016.

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

The following new standard and amendments and improvements to existing standards, that are relevant to the Group’s operation, are mandatory for the financial year of the Group beginning on 1 April 2016:

- HKAS 1 (amendment), “Disclosure initiative”
- HKAS 16 and HKAS 38 (amendment), “Clarification of acceptable methods of depreciation and amortisation”
- HKAS 27 (2011) (amendment), “Equity method in separate financial statements”
- HKFRS 10, HKFRS 12 and HKAS 28, (amendment), “Investment entities – Applying the consolidation exception”
- HKFRS 11 (amendment), “Accounting for acquisition of interests in joint operation”
- HKFRS 14, “Regulatory deferral accounts”
- Annual Improvements Project – Improvements to HKFRS 2012-2014 Cycle

The adoption of the new standard and amendments and improvements to existing standards neither have significant impact on the Group’s consolidated results and financial position nor any substantial changes in the Group’s accounting policies and the presentation of the condensed consolidated interim financial statements.

The following new standards and amendments to existing standards, that are relevant to the Group’s operation, have been issued but not yet effective or early adopted for the financial year of the Group beginning on 1 April 2016:

- HKAS 7 (amendment), “Disclosure initiative”¹
- HKAS 12 (amendment), “Recognition of deferred tax assets for unrealised losses”¹
- HKFRS 9 (2014), “Financial instruments”²
- HKFRS 10 and HKAS 28 (amendment), “Sale or contribution of assets between an investor and its associate or joint venture”⁴
- HKFRS 15, “Revenue from contracts with customers”²
- HKFRS 16, “Leases”³

¹ Effective for annual periods beginning on or after 1 January 2017

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

The Group is in the process of assessing the impact of these new standards and amendments to existing standards on the Group’s consolidated financial statements and is not yet in a position to state the effect and its significance.

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 March 2016.

3. SEGMENT INFORMATION

(a) Revenue and results

The Board reviewed the Group's internal reports to assess the Group's performance and to re-allocate resources. During the period ended 30 September 2016, the Group's segmentation was reclassified into Construction and Engineering, Property Investment, Property Development and Operations, Senior Housing and Others. The previous Property segment was split into Property Investment segment, Property Development and Operations segment and Senior Housing segment, meanwhile the Insurance and Investment segment and Food and Beverage segment were merged into Others segment.

Reportable segment information is presented below:

	Construction and Engineering HK\$'000	Property Investment HK\$'000	Property Development and Operations HK\$'000	Senior Housing HK\$'000	Others HK\$'000	Total HK\$'000
For the six months ended						
30 September 2016						
REVENUE						
Total revenue	1,529,194	73,667	323,952	262,957	360,216	2,549,986
Inter-segment revenue	-	-	(19,284)	-	(22,093)	(41,377)
Group revenue	1,529,194	73,667	304,668	262,957	338,123	2,508,609
Share of revenue of associates and joint ventures	1,029,868	-	31,644	-	720,770	1,782,282
Proportionate revenue from a joint venture eliminated	(19,366)	-	-	-	-	(19,366)
Segment revenue	2,539,696	73,667	336,312	262,957	1,058,893	4,271,525
RESULTS						
Segment profit	178,652	56,329	43,024	16,364	42,232	336,601
Included in segment profit are:						
Share of results of associates	47,264	-	130	-	1,885	49,279
Share of results of joint ventures	172	-	(2,370)	-	-	(2,198)
Depreciation and amortisation, net of capitalisation	(3,817)	(184)	(16,471)	(19,217)	(2,769)	(42,458)
Unrealised gain on derivative financial instruments	-	-	-	-	606	606
Unrealised gain on investments at fair value through profit or loss	-	-	-	-	9,403	9,403
Write down of inventories to net realisable value	(54)	-	-	-	(848)	(902)
Impairment loss (recognised)/written back on trade and other debtors	(5,777)	-	-	(8,546)	8	(14,315)

	Construction and Engineering HK\$'000	Property Investment HK\$'000	Property Development and Operations HK\$'000	Senior Housing HK\$'000	Others HK\$'000	Total HK\$'000
For the six months ended 30 September 2015						
REVENUE						
Total revenue	1,224,095	93,776	794,954	260,547	718,928	3,092,300
Inter-segment revenue	–	–	(14,639)	–	(44,525)	(59,164)
Group revenue	1,224,095	93,776	780,315	260,547	674,403	3,033,136
Share of revenue of associates and joint ventures	1,065,118	–	20,744	–	880,419	1,966,281
Proportionate revenue from a joint venture eliminated	(3,083)	–	–	–	–	(3,083)
Segment revenue	2,286,130	93,776	801,059	260,547	1,554,822	4,996,334
RESULTS						
Segment profit/(loss)	165,209	101,485	180,668	27,217	(133,079)	341,500
Included in segment profit/(loss) are:						
Share of results of associates	64,808	–	72	–	1,756	66,636
Share of results of joint ventures	12	–	(4,867)	–	–	(4,855)
Increase in fair value of investment properties	–	18,000	–	–	–	18,000
Depreciation and amortisation, net of capitalisation	(3,837)	(186)	(17,443)	(19,101)	(17,694)	(58,261)
Impairment loss on available-for-sale investments	–	–	–	–	(4,445)	(4,445)
Impairment loss on amount due from an associate	–	–	–	–	(117,838)	(117,838)
Unrealised gain/(loss) on derivative financial instruments	158	–	–	–	(14,489)	(14,331)
Unrealised loss on investments at fair value through profit or loss	–	–	–	–	(26,714)	(26,714)
Write (down)/back of inventories to net realisable value	(180)	–	–	–	3,499	3,319
Impairment loss on trade and other debtors	(1,301)	–	–	(1,670)	(336)	(3,307)

Note: Inter-segment revenue is charged at prices determined by management with reference to market prices.

Reconciliation of segment profit to profit before taxation is provided as follows:

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Segment profit	336,601	341,500
Unallocated corporate expenses	(16,266)	(5,985)
Finance income	10,030	11,711
Finance costs	(50,429)	(51,059)
Profit before taxation	279,936	296,167

(b) Assets and liabilities

	Construction and Engineering HK\$'000	Property Investment HK\$'000	Property Development and Operations HK\$'000	Senior Housing HK\$'000	Others HK\$'000	Total HK\$'000
At 30 September 2016						
ASSETS						
Segment assets	2,025,431	3,747,681	4,761,688	1,461,560	1,910,374	13,906,734
Included in segment assets are:						
Interests in associates	470,108	–	1,522	–	437,787	909,417
Interests in joint ventures	11,928	–	504,954	–	–	516,882
Amounts due from associates	13,486	–	–	–	2	13,488
Amount due from a joint venture	37,594	–	–	–	–	37,594
Additions to non-current assets (Note)	4,101	8,807	31,648	7,904	2,497	54,957
LIABILITIES						
Segment liabilities	1,635,856	35,714	633,468	52,998	566,750	2,924,786
Included in segment liabilities is:						
Amount due to a joint venture	–	–	56,128	–	–	56,128
At 31 March 2016						
ASSETS						
Segment assets	1,852,348	3,740,891	4,706,447	1,337,057	2,009,730	13,646,473
Included in segment assets are:						
Interests in associates	469,955	–	2,294	–	448,821	921,070
Interests in joint ventures	11,755	–	508,950	–	–	520,705
Amounts due from associates	18,072	–	–	–	2	18,074
Amount due from a joint venture	59	–	–	–	–	59
Additions to non-current assets (Note)	15,442	535	921,065	14,488	33,511	985,041
LIABILITIES						
Segment liabilities	1,611,548	36,761	493,876	53,911	610,967	2,807,063
Included in segment liabilities are:						
Amount due to an associate	–	–	240	–	–	240
Amount due to a joint venture	–	–	53,230	–	–	53,230

Note: In this analysis, the non-current assets exclude financial instruments (including interests in associates and joint ventures) and deferred tax assets.

Reconciliation of segment assets and liabilities to total assets and liabilities is provided as follows:

	As at 30 September 2016 HK\$'000	As at 31 March 2016 HK\$'000
Segment assets	13,906,734	13,646,473
Prepaid tax	8,005	6,834
Unallocated bank balances and cash	743,820	838,810
Deferred tax assets	22,437	18,547
Other unallocated assets	14,030	9,029
	<u>14,695,026</u>	<u>14,519,693</u>
Segment liabilities	2,924,786	2,807,063
Current income tax liabilities	100,542	62,964
Bank borrowings	3,175,806	3,112,536
Deferred tax liabilities	281,425	279,222
Other unallocated liabilities	37,577	19,653
	<u>6,520,136</u>	<u>6,281,438</u>

(c) Geographical information

The Group's Construction and Engineering businesses are mainly carried out in Hong Kong, Mainland China, Macau and Australia. Property Investment businesses are mainly carried out in Hong Kong, Mainland China, Canada and Singapore. Property Development and Operations businesses are mainly carried out in Hong Kong, Mainland China and Canada. Senior Housing business is mainly carried out in the United States of America ("US"). Other businesses are mainly carried out in Hong Kong, US, Canada and Thailand.

The associates' and joint ventures' Construction and Engineering businesses are mainly carried out in Hong Kong, Mainland China, Macau and Singapore. Property Development and Operations businesses are mainly carried out in Hong Kong and Mainland China. Other businesses are carried out in Hong Kong, Mainland China and Australia.

	Segment revenue by geographical areas							
	Company and subsidiaries HK\$'000	Associates and joint ventures HK\$'000	Six months ended 30 September 2016 Total HK\$'000	%	Company and subsidiaries HK\$'000	Associates and joint ventures HK\$'000	Six months ended 30 September 2015 Total HK\$'000	%
Hong Kong	1,649,862	332,574*	1,982,436	46	1,383,547	236,989*	1,620,536	33
Mainland China	60,016	1,245,136	1,305,152	31	616,086	1,299,572	1,915,658	39
US	320,967	-	320,967	8	318,868	-	318,868	6
Canada	207,278	-	207,278	5	198,342	-	198,342	4
Macau	166,854	8,264	175,118	4	392,124	16,608	408,732	8
Singapore	6,166	153,658	159,824	4	6,320	127,973	134,293	3
Australia	70,298	23,091	93,389	2	89,623	281,783	371,406	7
Thailand	18,048	-	18,048	-	23,018	-	23,018	-
Others	9,120	193	9,313	-	5,208	273	5,481	-
	<u>2,508,609</u>	<u>1,762,916</u>	<u>4,271,525</u>	<u>100</u>	<u>3,033,136</u>	<u>1,963,198</u>	<u>4,996,334</u>	<u>100</u>

* The proportionate revenue from a joint venture is eliminated.

The Group maintains a healthy and balanced portfolio of customers. For the six months ended 30 September 2016, HK\$720,672,000 was derived from two external customers in Construction and Engineering segment and each of them is accounted for more than 10% of the total revenue of the Group. For the period ended 30 September 2015, no customer accounted for 10% or more of the total revenue of the Group.

4. OTHER INCOME, NET

Six months ended 30 September	
2016	2015
HK\$'000	HK\$'000

Included in other income, net are:

Gain/(loss) on investments at fair value through profit or loss	13,844	(23,835)
Gain/(loss) on derivative financial instruments	606	(853)
Other investment income	7,164	7,113
Commission income	3,854	4,660
Marketing and promotion income	–	3,495
Sales and marketing services income from an associate	12,808	12,371
Management fee income from associates and joint ventures	12,599	13,354
	<u>12,599</u>	<u>13,354</u>

5. OTHER LOSSES, NET

Six months ended 30 September	
2016	2015
HK\$'000	HK\$'000

Included in other losses, net are:

Increase in fair value of investment properties	–	18,000
Gain on disposal of an investment property	–	52
Gain/(loss) on disposal of property, plant and equipment	192	(147)
Impairment loss on available-for-sale investments	–	(4,445)
Impairment loss on amount due from an associate	–	(117,838)
Impairment loss on trade and other debtors	(14,315)	(3,307)
Exchange losses	(2,882)	(14,104)
	<u>(2,882)</u>	<u>(14,104)</u>

6. FINANCE COSTS, NET

	Six months ended 30 September	
	2016 HK\$'000	2015 HK\$'000
Interest expenses on bank overdrafts and bank borrowings	56,839	54,666
Less: Amounts capitalised to properties under development (Note)	<u>(6,410)</u>	<u>(3,607)</u>
	50,429	51,059
Less: Interest income from bank deposits	<u>(10,030)</u>	<u>(11,711)</u>
	<u>40,399</u>	<u>39,348</u>

Note: The capitalisation rate applied to funds borrowed and used for the development of properties was between 4.6% and 4.8% per annum during the six months ended 30 September 2016 (2015: between 4.9% and 5.9%).

7. PROFIT BEFORE TAXATION

	Six months ended 30 September	
	2016 HK\$'000	2015 HK\$'000
Profit before taxation has been arrived at after charging/(crediting) the following:		
Cost of inventories recognised as expenses	257,519	342,534
Write down/(back) of inventories to net realisable value	902	(3,319)
Staff costs	465,911	562,658
Less: Amounts capitalised to contract work	<u>(104,561)</u>	<u>(91,337)</u>
	361,350	471,321
Operating lease payments in respect of leasing of		
– premises	22,595	67,192
– premises under contingent rent	–	3,784
– equipment	<u>1,463</u>	<u>2,876</u>
	24,058	73,852
Depreciation of property, plant and equipment	43,284	57,761
Less: Amounts capitalised to contract work	<u>(1,331)</u>	<u>(983)</u>
	41,953	56,778
Amortisation of other intangible assets	<u>505</u>	<u>1,483</u>

8. TAXATION

	Six months ended 30 September	
	2016 HK\$'000	2015 HK\$'000
Current tax		
Hong Kong	33,038	36,134
Mainland China and overseas	34,378	17,581
Over-provision in prior years	(3,388)	(802)
	<u>64,028</u>	<u>52,913</u>
Deferred tax		
Origination and reversal of temporary differences	3,480	10,395
	<u>67,508</u>	<u>63,308</u>

Hong Kong profits tax is calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits. Taxation on Mainland China and overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company of HK\$190,729,000 (2015: HK\$204,964,000) by the weighted average number of 301,928,440 (2015: 299,990,835) ordinary shares in issue during the period.

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. As at 30 September 2016 and 2015, the Group had potential ordinary shares in an associate, which were issuable upon exercise of share option granted. There was no potential dilutive effect from such share option held during the period. As at 30 September 2016 and 2015, an associate of the Group had potential ordinary shares which were issuable upon exercise of share option granted. There were no potential dilutive effects from such share option during both periods.

10. DIVIDEND

	Six months ended 30 September	
	2016 HK\$'000	2015 HK\$'000
Interim dividend of HK\$0.20 (2015: HK\$0.20) per share	<u>60,386</u>	<u>60,386</u>

On 25 November 2016, the Board of Directors declared an interim dividend of HK\$0.20 per share. The interim dividend is not reflected as a dividend payable in these condensed consolidated interim financial statements, but will be reflected as an appropriation of the retained profits for the year ending 31 March 2017.

The 2015/16 final dividend of HK\$0.50 per share totaling HK\$150,964,000, was approved at the annual general meeting held on 2 September 2016 and paid on 23 September 2016. The final dividend had been reflected as an appropriation of the retained profits for the six months ended 30 September 2016.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

	As at 30 September 2016 HK\$'000	As at 31 March 2016 HK\$'000
Trade debtors	642,251	641,104
Less: Provision for impairment	<u>(39,963)</u>	<u>(27,099)</u>
Trade debtors, net	----- 602,288	----- 614,005
Retention receivables	330,842	309,785
Less: Provision for impairment	<u>(33,570)</u>	<u>(33,570)</u>
Retention receivables, net	----- 297,272	----- 276,215
Other debtors, deposits and prepayments	<u>293,012</u>	<u>197,267</u>
	<u>1,192,572</u>	<u>1,087,487</u>

The Group has established different credit policies for customers in each of its core businesses. The average credit period granted to trade debtors is 60 days, except for insurance business where credit period granted to certain debtors is over 60 days.

The ageing analysis of trade debtors, net is as follows:

	As at 30 September 2016 HK\$'000	As at 31 March 2016 HK\$'000
0 – 60 days	518,512	535,860
61 – 90 days	31,060	22,395
Over 90 days	<u>52,716</u>	<u>55,750</u>
	<u>602,288</u>	<u>614,005</u>

12. CREDITORS, BILLS PAYABLE, DEPOSITS AND ACCRUALS

	As at 30 September 2016 HK\$'000	As at 31 March 2016 HK\$'000
Trade creditors and bills payable	217,525	211,982
Retention payables	167,580	151,978
Deposits received	182,597	55,357
Accrued contract costs	324,035	422,302
Other creditors and accruals	462,665	456,118
	<u>1,354,402</u>	<u>1,297,737</u>

The ageing analysis of trade creditors and bills payable is as follows:

	As at 30 September 2016 HK\$'000	As at 31 March 2016 HK\$'000
0 – 60 days	194,214	175,503
61 – 90 days	6,778	17,192
Over 90 days	16,533	19,287
	<u>217,525</u>	<u>211,982</u>

13. ACQUISITION AND DISPOSAL OF BUSINESSES

(a) Deemed disposal of interest in Cafe Deco Holdings Limited (“Cafe Deco”)

Pursuant to the subscription agreement dated 11 December 2015, Cafe Deco agreed to allot and issue the shares to the third parties. Upon completion, the equity interest of Cafe Deco held by the Group was diluted from 60% to 25.28% and became an associate of the Group from an indirect non wholly-owned subsidiary.

	HK\$'000
Fair value of 25.28% equity interest of Cafe Deco	48,495

Less: net assets disposed of:	
Property, plant and equipment	83,655
Goodwill	57,247
Other intangible assets	11,619
Interest in an associate	55
Other non-current assets	14,802
Amount due from an associate	1,160
Inventories	11,738
Debtors, deposits and prepayments	49,793
Bank balances and cash	24,563
Creditors, deposits and accruals	(80,351)
Deferred income	(3,908)
Bank borrowings	(80,857)
Current income tax liabilities	(1,541)
Deferred tax liabilities	(453)
Non-controlling interests	(42,270)
Capital reserve released upon disposal	1,703
Other assets revaluation reserve released upon disposal	(322)
Exchange fluctuation reserve released upon disposal	1,862

	48,495

Gain on disposal	-
	=====
Net cash outflow arising from the disposal:	
Bank balances and cash	(24,563)
	=====

(b) Acquisition of 100% equity interest in Dolce Field Limited (“Dolce Field”)

Pursuant to the agreements dated 20 March 2015, the Group agreed to purchase 100% equity interest in Dolce Field, the immediate holding company of 51% equity interest in Chengdu Chevalier Property Development Company Limited (“CCPD”, 成都其士房地產發展有限公司), at a consideration of approximately HK\$346,563,000, which represents the cost of share capital and amount due to the Group. CCPD was a company established in the Mainland China and held as a 49% joint venture by the Group as of 31 March 2015. The transaction was completed in April 2015 and Dolce Field became a wholly-owned subsidiary of the Group since then.

The following table summarised the consideration paid and the amounts of the assets acquired and liabilities assumed recognised as at the acquisition date.

	HK\$'000
Total consideration satisfied by:	
Amount due from a joint venture	346,563
Interest originally held by the Group	174,213
	<hr/>
Fair values of net assets acquired (as shown below)	520,776
	<hr/> <hr/>
Assets acquired and liabilities assumed as follows:	
Property, plant and equipment	4,432
Properties under development	546,750
Other non-current assets	2,750
Inventories	637
Properties for sale	869,325
Debtors, deposits and prepayments	15,166
Bank balances and cash	2,304
Amount due to a joint venture	(166,701)
Creditors, deposits and accruals	(612,010)
Bank borrowings	(141,877)
	<hr/>
Total identifiable net assets	520,776
	<hr/> <hr/>
Net cash inflow arising from the acquisition:	
Bank balances and cash	2,304
	<hr/> <hr/>

(c) Acquisition of 11% equity interest in Mass Harvest Limited (“Mass Harvest”)

Pursuant to the agreements dated 20 March 2015, the Group agreed to purchase 11% equity interest in Mass Harvest, the immediate holding company of Chengdu Century Jinjiang International Hotel Company Limited (成都世代錦江國際酒店有限公司) at a consideration of approximately HK\$26,696,000, which represents the cost of share capital and amount due to the Group. Mass Harvest was a company established in the British Virgin Islands and held as a 49% joint venture by the Group as at 31 March 2015. The transaction was completed in April 2015 and Mass Harvest remained as a joint venture of the Group.

14. CONTINGENT LIABILITIES

The Group had contingent liabilities in respect of guarantees issued for utilised borrowings in relation to:

	As at 30 September 2016 HK\$'000	As at 31 March 2016 HK\$'000
Banking facilities granted to associates	2,980	14,081
Banking facilities granted to a joint venture	217,180	184,232
Guarantees given to banks and housing retirement fund management centers for mortgage facilities granted to certain properties' buyers	435,108	348,964
	<u>655,268</u>	<u>547,277</u>

The Group's share of contingent liabilities of its joint ventures as follows:

	As at 30 September 2016 HK\$'000	As at 31 March 2016 HK\$'000
Guarantees given to banks for mortgage facilities granted to certain buyers of the joint ventures' properties	4,068	4,208

15. COMMITMENTS

The Group had commitments as follows:

	As at 30 September 2016 HK\$'000	As at 31 March 2016 HK\$'000
Contracted but not provided for in the condensed consolidated financial statements in respect of		
– property development projects	464,561	637,158
– acquisition of plant and equipment	390	1,311
– acquisition of an investment property	–	5,970
	<u>464,951</u>	<u>644,439</u>

The Group's share of commitments of its joint ventures as follows:

	As at 30 September 2016 HK\$'000	As at 31 March 2016 HK\$'000
Contracted but not provided for	216,724	307,619

16. EVENT OCCURRING AFTER THE END OF THE REPORTING PERIOD

On 7 October 2016, the Group announced it has entered into an agreement for, among others, the redevelopment of a land parcel in Hong Kong; operation and management of senior housing facility and residential care home for the elderly; and engagement of consultancy services. The Group has committed to provide a loan in no event exceeding HK\$800 million and an estimated working capital of HK\$50 million, which shall be recouped from the income generated from resident deposits and the operating revenue, as well as a standard fee and other incentive fees, the terms of which shall be agreed from time to time between the parties.

INTERIM DIVIDEND

The Board of Directors has resolved to declare an interim dividend of HK\$0.20 (2015: HK\$0.20) per share for the six months ended 30 September 2016. The interim dividend will be payable on or about Wednesday, 21 December 2016 to those shareholders whose names appear on the Register of Members of the Company on Friday, 16 December 2016.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 14 December 2016 to Friday, 16 December 2016, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the above interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 13 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 September 2016, profit attributable to shareholders and earnings per share was HK\$191 million and HK\$0.63 (2015: HK\$205 million and HK\$0.68) respectively, representing a slight drop of 6.9% and 7.4% as compared with the last corresponding period. Consolidated revenue of the Group amounted to HK\$2,509 million (2015: HK\$3,033 million), representing a decrease of 17.3% when compared with the last corresponding period. Taking into account the share of revenue of associates and joint ventures, total segment revenue was HK\$4,272 million (2015: HK\$4,996 million), representing a decrease of 14.5%. The decrease in the Group's consolidated revenue was mainly due to the slowdown in the sale of residential units in the Mainland China and the decrease in revenue for food and beverage business as a result of the dilution of interest in and deemed disposal of Cafe Deco Group in December 2015 as compared to the last corresponding period. Steady contribution from the construction and engineering businesses, rental income from investment properties and the cold storage and logistics business remained profit drivers for the period under review.

The Board reviewed the Group's internal reports to assess the Group's performance and to re-allocate resources. During the period ended 30 September 2016, the Group's segmentation was reclassified into Construction and Engineering, Property Investment, Property Development and Operations, Senior Housing and Others. The previous Property segment was split into Property Investment segment, Property Development and Operations segment and Senior Housing segment, meanwhile the Insurance and Investment segment and the Food and Beverage segment were merged into Others segment.

CONSTRUCTION AND ENGINEERING

The Construction and Engineering segment recorded an increase of 11.1% in revenue from HK\$2,286 million to HK\$2,540 million when compared to the same period last year. Profit in this segment recorded an increase of 8.1% to HK\$179 million (2015: HK\$165 million). The growth in profit was mainly attributable to the contribution from the electrical and mechanical engineering and building construction divisions of this segment.

As at 30 September 2016, the total value of the Group's outstanding construction and engineering contracts in hand amounted to HK\$4,550 million. Major contracts are:

1. Construction of a government complex at Tuen Mun, New Territories;
2. Construction of the expansion of the blood transfusion service headquarters of the Red Cross at Homantin, Kowloon;
3. Construction of the property development at Long Ping Station, Yuen Long, New Territories;
4. Expansion of the Tai Po Water Treatment Works Stream II, Tai Po, New Territories;
5. HVAC installation works for a hotel development at Lot 1950, D.D. 221, Wai Man Road, Sai Kung, New Territories; and
6. Design, supply and installation of curtain wall and aluminium window for a residential development at Lot 1949, D.D. 221, Sha Kok Mei, Sai Kung, New Territories.

PROPERTY INVESTMENT

During the period under review, the Property Investment segment primarily comprised of the properties rental business. Segment revenue and profit dropped by 21.4% and 44.5% to HK\$74 million and HK\$56 million respectively due to the absence of increase in fair value of investment properties in last corresponding period. Given the size of the Group's rental portfolio of approximately 660,000 sq. ft. and 163,000 sq. ft. in Hong Kong and the Mainland China remained unchanged, it is anticipated that performance of this segment be kept in the second half of the financial year.

PROPERTY DEVELOPMENT AND OPERATIONS

The positive performance of the cold storage and logistics business and the property management business in Hong Kong, and the recognition of revenue from the sale of properties of "My Villa" in Beijing and "Chateau Ermitas" in Chengdu boosted the Group's revenue during the period under review. However, with the decrease in profit from the sale of Phase 1 of Chevalier City in Changchun as compared with the last corresponding period, the Property Development and Operations segment's revenue decreased by 58.0% from HK\$801 million to HK\$336 million and segment profit dropped by 76.2% from HK\$181 million to HK\$43 million.

The construction of City Hub, a 50-50 joint venture property development for Urban Renewal Authority in Chi Kiang Street and Ha Heung Road, is in progress and completion of this is expected to be in 2017.

SENIOR HOUSING

In view of its significant revenue and its contribution to the Group, the senior housing business was detached from the Property segment and there was formed a new Senior Housing segment. This segment's revenue increased slightly to HK\$263 million although profit dropped by 39.9% to HK\$16 million. Such result was mainly due to debts provision. As at 30 September 2016, the Group owned 23 senior housing facilities providing 1,017 assisted living beds, 733 memory care beds and 119 skilled nursing beds to serve different needs of the aged population in the US.

Subsequent to the period end, the Group granted a loan in no event exceeding HK\$800 million and an estimated working capital of HK\$50 million to Hong Kong-Macao Conference Limited and Hong Kong-Macao Conference Holding Limited for its participation in the redevelopment of a piece of land located on Ventris Road, in Happy Valley, Hong Kong into a church and facility building. Such facility building will be used for a senior housing facility and residential care home for the elderly. The development is expected to complete in 2020.

OTHERS

During the six months ended 30 September 2016, as a result of the realignment of the Group's income resources with growth strategies, the Group shifted the insurance and investment business and food and beverage business into this segment. During the period under review, this segment's revenue experienced a drop of HK\$496 million to HK\$1,059 million. However, without the negative impact imposed by the fresh produce business in Australia and with positive contribution from the investment portfolio of the investment and insurance business, this segment's profit rebounded to HK\$42 million.

FUTURE PROSPECTS

With the conclusion of the US presidential election, investors will refocus on the recovery pace of the European and US economies. Given the federal funds rate remains at near-zero, any significant increase in the federal funds rate in the coming months will create challenges for the global investment markets.

The HKSAR Government has initiated measures to cool the sizzling local property market by raising the property stamp duty for non first-time individual and corporate buyers to 15 per cent. Home prices are likely to drop in next few months before the market can fully digest the impact brought on by this policy. The management will diligently monitor its resources and continue to expand contracts in hand cautiously in light of the backlog contracts in the Construction and Engineering segment.

The property market in the Mainland China improved, as reflected by the increase in sales value and volume, mainly due to the Central Government's accommodative housing policies in most of the cities. End-user demand remains robust, and the management of the Group is optimistic about the long term prospects of Chengdu's and Changchun's residential property markets. The Group will capture all opportunities in realising the units of "Chevalier City" in Changchun and "Chateau Ermitas" in Chengdu.

Under the pressure of a progressively ageing population, the Senior Housing segment in the US is promising. With the completion of a low interest rate refinancing secured for part of the Group's senior housing properties in the US, the Group continues to benefit from the low cost debt environment and will look for opportunities in expanding its senior housing portfolio. Further, the Group's participation in the redevelopment of a piece of land in Hong Kong into a senior housing facility and residential care home for the elderly turns a new page for the Group. The Group considers it an opportune time to expand its footprint in the senior housing market to Hong Kong and Asia by leveraging on its experience in the US.

Despite the global and local uncertainties faced by the investment and business market, the performance of the Group will remain strong and the Group will continue to generate steady cash flow and profit in the second half of the financial year.

FINANCIAL REVIEW

As at 30 September 2016, the Group's net assets attributable to shareholders of the Company amounted to HK\$7,678 million, a decrease of HK\$72 million when compared with 31 March 2016 of HK\$7,750 million. Such decrease was mainly resulted from the profit attributable to shareholders of the Company of HK\$191 million, offset by the appropriation of 2015/16 final dividend of HK\$151 million and exchange difference on translation of operations of overseas subsidiaries, associates and joint ventures of HK\$122 million.

As at 30 September 2016, the Group's bank borrowings and cash and bank balances increased to HK\$3,176 million and HK\$2,105 million respectively (31 March 2016: HK\$3,113 million and HK\$2,009 million respectively) mainly due to the net drawdown of bank borrowings.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed approximately 3,100 full-time staff under its subsidiaries globally as at 30 September 2016. Total staff costs amounted to HK\$466 million for the period under review. The remuneration policies of the Group are reviewed periodically on the basis of the nature of job, market trend, company performance and individual performance. Other staff benefits include bonuses awarded on a discretionary basis, medical schemes and retirement schemes.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the six months ended 30 September 2016.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2016, except for the following deviations:–

Code Provision A.4.1 of the CG Code stipulates that Non-Executive Directors should be appointed for a specific term and subject to re-election. As stated in the Company's Annual Report 2016, all the Non-Executive Directors of the Company are not appointed for a specific term but subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Company's Bye-Laws.

Code Provision A.6.7 of the CG Code stipulates that the Independent Non-Executive Directors and other Non-Executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr Sun Kai Dah, George, an Independent Non-Executive Director, was unable to attend the annual general meeting of the Company held on 2 September 2016 due to other commitments.

Pursuant to Rule 3.10A and Rule 3.21 of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of Board and the audit committee must comprise a minimum of three members. Pursuant to Code Provision A.5.1 of the CG Code, the nomination committee should be chaired by the chairman of the Board or an independent non-executive director of the Company. Following the retirement of Mr Sun Kai Dah, George at the annual general meeting of the Company held on 2 September 2016, both the number of independent non-executive directors and the members of the Audit Committee have fallen below the minimum, and the chairman of the Nomination Committee has been vacant and did not meet the requirements under the Listing Rules. Following the announcement of the Company made on 25 November 2016 regarding the appointment of

Mr Irons Sze as the Independent Non-Executive Director of the Company, Professor Poon Chung Kwong as a member of the Audit Committee of the Company and Mr Kuok Hoi Sang as the chairman of the Nomination Committee, the Company has now complied with Rule 3.10A, Rule 3.21 of the Listing Rules and Code Provision A.5.1 of the CG Code.

MODEL CODE FOR 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 of the Listing Rules. Following a specific enquiry of all the Directors, each of the Directors confirmed that he/she has complied with the Model Code throughout the six months ended 30 September 2016.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-Executive Directors of the Company, namely Mr Yang Chuen Liang, Charles as Committee chairman, Dr Chow Ming Kuen, Joseph and Professor Poon Chung Kwong as Committee members.

During the period, the Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group and discussed the auditing, risk management and internal controls systems of the Group and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2016.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE’S WEBSITE

The interim results announcement of the Company for the six months ended 30 September 2016 is published on the Stock Exchange’s website at <http://www.hkexnews.hk> and the Company’s website at <http://www.chevalier.com>. The interim report of the Company for the six months ended 30 September 2016 containing all applicable information required by the Listing Rules will be despatched to the shareholders of the Company and published on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to my fellow directors for their guidance, to all staff for their professionalism and contributions, and to all our shareholders and customers for their continued support to the Group throughout this period.

By Order of the Board
Chevalier International Holdings Limited
KUOK Hoi Sang
Co-Chairman and Managing Director

Hong Kong, 25 November 2016

As at the date of this announcement, the Board of the Company comprises Dr Chow Yei Ching (Co-Chairman), Messrs Kuok Hoi Sang (Co-Chairman and Managing Director), Tam Kwok Wing (Deputy Managing Director), Ho Chung Leung, Ma Chi Wing and Miss Lily Chow as Executive Directors; Dr Chow Ming Kuen, Joseph, Mr Yang Chuen Liang, Charles, Professor Poon Chung Kwong and Mr Irons Sze as Independent Non-Executive Directors; Dr Ko Chan Gock, William and Mr Chow Vee Tsung, Oscar as Non-Executive Directors.

* For identification purpose only