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## ANNOUNCEMENT OF 2016 GROUP FINAL RESULTS

### FINANCIAL AND BUSINESS HIGHLIGHTS

	Year 2016	Year 2015	% Change
	HK\$'M	HK\$'M	
<b>Revenue</b>	<b>2,617.1</b>	2,471.8	<b>+5.9%</b>
<b>Gross profit</b>	<b>1,188.4</b>	1,122.1	<b>+5.9%</b>
<b>Operating profit before depreciation, finance costs and tax</b>	<b>987.1</b>	1,046.3	<b>-5.7%</b>
<b>Profit for the year attributable to equity holders of the parent</b>	<b>213.7</b>	119.0	<b>+79.6%</b>
<b>Basic earnings per ordinary share attributable to equity holders of the parent</b>	<b>HK\$0.23</b>	HK\$0.13	<b>+76.9%</b>
<b>Proposed final dividend per ordinary share</b>	<b>HK9.0 cents</b>	HK9.0 cents	—
<b>Total dividends for the year per ordinary share</b>	<b>HK13.0 cents</b>	HK13.0 cents	—
	<b>As at 31st December, 2016</b>	<b>2015</b>	
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	
<b>Net asset value per ordinary share attributable to equity holders of the parent</b>			
<b>Book</b>	<b>HK\$12.91</b>	HK\$12.84	<b>+0.5%</b>
<b>*Adjusted</b>	<b>HK\$19.16</b>	HK\$18.66	<b>+2.7%</b>

\*compiled, for the purpose of reference, on an adjusted basis to restate the Group's hotel property portfolio at its market value at 31st December, 2016 with the relevant deferred tax liabilities added back

- **Operating profit before depreciation, finance costs and tax for the year amounted to HK\$987.1 million (2015 – HK\$1,046.3 million).**
- **Profit for the year attributable to shareholders amounted to HK\$213.7 million (2015 – HK\$119.0 million).**
- **Total depreciation charges on the Group’s hotel portfolio in Hong Kong for the year amounted to HK\$459.3 million which, although not having an impact on cash flow, have nonetheless significantly impacted on the reported profit. In addition, depreciation charges on the Group’s aircraft fleet for the year amounted to HK\$54.3 million.**
- **Being one of the major hotel owners in Hong Kong, Regal Real Estate Investment Trust, a listed subsidiary of the Group, owns a total of eight operating hotels in Hong Kong, with an aggregate of 4,569 guest rooms and suites. Seven of these hotels are under lease to the Group for hotel operation.**
- **For the year under review, the five initial Regal Hotels have as a whole maintained steady performance. Total net property income amounted to HK\$770.9 million, which represented an excess of HK\$38.9 million over the aggregate base rent of HK\$732.0 for 2016, 50% of which was attributable to Regal REIT as variable rent.**
- **The market rental review for the five initial Regal Hotels for 2017 has been completed and the annual base rent for 2017 was determined to be HK\$733.0 million, reflecting an increment of HK\$1 million over the annual base rent of HK\$732.0 million for 2016, with variable rent continuing to be based on 50% sharing of the excess of the aggregate net property income over the aggregate base rent.**
- **A wholly owned subsidiary of the Group was awarded in February 2017 the development right for a new hotel development project at the Hong Kong International Airport at a consideration (representing non-refundable rental payment) of approximately HK\$2,188.9 million. Under the terms of the development agreement, the Group will be granted a sub-lease for the operation of the hotel project for a term up to 17th September, 2066 after completion of the construction of the hotel project.**
- **The hotel project has a site area of approximately 6,650 square metres (71,580 square feet) and permissible gross floor area of 33,700 square metres (362,750 square feet) and is currently planned to be developed into a multi-storey hotel building providing about 1,200 guest rooms and suites with ancillary facilities. The construction of the hotel project is presently anticipated to be completed within a period of four years.**

- **P&R Holdings Limited, a 50:50 joint venture of the Group with Paliburg Holdings Limited, the immediate listed holding company of the Group, completed prior to the year end the disposal of a 50% equity interest in the entity that beneficially holds the hotel development at Ha Heung Road, To Kwa Wan, Kowloon, based on an agreed value of HK\$1,300 million for the hotel on an unencumbered basis. The attributable gain derived from this sale transaction has been reflected in the share of profits of joint ventures in the results of the Group for the year under review.**
- **Mostly recently, the Group entered into an agreement for the acquisition of the properties located at Nos.150-158 Queen's Road West, which have an aggregate site area of about 480 square metres (5,170 square feet) and are planned for a commercial/residential development.**
- **During the year, the Group sold 3 garden houses in Regalia Bay, Stanley. As at 31st December, 2016, the Group retained a total of 15 houses, one of which has further been sold after the last year end date. Taking advantage of the buoyant market condition in the luxury residential properties in Hong Kong, the Group will continue to dispose of some of the remaining houses if favourable terms are offered.**
- **In an effort to diversify the Group's recurring income base, the Group has invested in the aircraft leasing business since 2012, which is contributing steady revenues. As at the last year end, the Group's aircraft fleet comprised a total of 14 aircraft, 7 of which has effectively been sold during the year through the entering into of the relevant finance leases, realising satisfactory returns. To replenish the aircraft fleet, the Group has recently entered into a letter of intent for the acquisition of a mid-life Airbus A320 model aircraft with an operating lease attached.**
- **Although the performance of the tourist and hotel industries in Hong Kong for 2016 as a whole showed a continuing decline from their levels in 2015, the general market conditions have regained some momentum gradually in the latter part of the year.**
- **The undertaking of the new hotel project in the Hong Kong International Airport marks the confidence of the Group in the long term development prospects of Hong Kong's tourism and hotel industries and the conviction and commitment of the Group (including Regal REIT) to maintain its position as a prominent hotel owner and operator group in Hong Kong.**
- **The various property projects in Hong Kong being developed by P&R Holdings were acquired at costs which are relatively low as compared to the current market prices. Accordingly, it can be expected that substantial cash flow and profit will be contributed to the Group over the next few years when these projects are gradually completed and sold.**
- **At the same time, the Group is also actively reviewing various hotel and other investment opportunities, both in Hong Kong and overseas, with a view to further broadening the asset and income base of the Group.**

## **FINANCIAL RESULTS**

For the year ended 31st December, 2016, the Group achieved a consolidated profit attributable to shareholders of HK\$213.7 million, representing an increase of 79.6% over the HK\$119.0 million attained in 2015.

Operating profit before depreciation, finance costs and tax for the year amounted to HK\$987.1 million (2015 – HK\$1,046.3 million). As previously explained, all the Group’s hotel properties in Hong Kong are owned and self-operated by subsidiaries of the Company and, in order to conform to applicable accounting standards, are subject to depreciation charges. Total depreciation charges on the Group’s hotel portfolio in Hong Kong for the year amounted to HK\$459.3 million which, although not having an impact on cash flow, have nonetheless significantly impacted on the reported profit. In addition, depreciation charges on the Group’s aircraft fleet for the year amounted to HK\$54.3 million.

As there is a material difference prevailing between the carrying values of the Group’s hotel property portfolio, which are subject to accumulated depreciation charges, and their fair values as at 31st December, 2016, an Adjusted Net Asset Value Statement is presented in the section headed “Management Discussion and Analysis” in this announcement, which illustrated for the purpose of reference that, if all such hotel properties were to be stated in the Group’s financial statements at their independent professional market valuation as at 31st December, 2016, the underlying adjusted net asset value of the Company would amount to HK\$19.16 per share.

## **BUSINESS OVERVIEW**

### **HOTELS**

#### **MARKET OVERVIEW**

The deceleration in growth across major advanced economies to 1.6 percent in 2016 reflected renewed policy uncertainties, weak external demand and subdued productivity growth. The

recovery process of the United States economy during 2016 was slower than expected, but since the run-up to the U.S. presidential election in November 2016, activity had picked up again. The economies in Europe are facing increased uncertainties, with the United Kingdom having voted in June 2016 to leave the European Union and the several major elections across the Eurozone that are scheduled to take place later in 2017, which may pose further political risks and changes in the related government policies. For the People's Republic of China, the annual Gross Domestic Product (GDP) growth rate slightly moderated to 6.7% in 2016, but remained the highest among major economies. Meanwhile, the annual GDP of Hong Kong grew modestly by 1.9%, which was 0.5 percentage point below the level in 2015.

A strong Hong Kong dollar and the increased competition from other countries have continued to negatively impact the tourist and hotel markets in Hong Kong. Overall business conditions for the hotel industry for the year under review have been challenging and the hotel room rates remained under certain degree of pressure. In 2016, visitor arrivals to Hong Kong decreased by 4.5% year-on-year to a total of 56.7 million, due mainly to the reduction in the overall number of visitors from Mainland China. However, overnight visitors have remained relatively steady and recorded a total count of 26.6 million. As a matter of fact, for the year under review, there were increases of 2.8% and 8.4% in the number of overnight visitors from the traditional long haul markets and short haul markets (excluding Mainland China), respectively. Based on a hotel survey published by the Hong Kong Tourism Board, the average hotel occupancy rate for all the surveyed hotels in different categories for 2016 was 87.0%, a slight increase of 1.0 percentage point from 2015, while the industry-wide achieved average room rate recorded a downward adjustment of 3.7%, resulting in a year-on-year decline of 2.6% in the Revenue per Available Room (RevPAR).

## **HOTEL OWNERSHIP**

### **REGAL REAL ESTATE INVESTMENT TRUST**

As at 31st December, 2016, the Group continued to hold approximately 74.6% of the total outstanding issued units of Regal REIT while Regal Portfolio Management Limited, a wholly owned subsidiary of the Group, acts as the REIT Manager.

For the year ended 31st December, 2016, Regal REIT recorded a consolidated profit before distributions to Unitholders of HK\$564.0 million, while for the financial year 2015, a loss of HK\$1,527.8 million was reported. It should however be noted that the consolidated profit recorded for 2016 included a fair value gain of HK\$91.3 million on the increase in the appraised values of the hotel properties in Hong Kong which are owned by Regal REIT as investment properties, after offsetting the additional capital expenditures for the year, while a corresponding fair value loss of HK\$2,049.5 million was recorded in 2015. If the effects of these fair value changes are excluded, the core profit before distributions to Unitholders for the year under review would amount to HK\$472.7 million, as compared to HK\$521.7 million for the preceding year.

As reported before, the five initial Regal Hotels, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel are under lease by Regal REIT to a wholly owned subsidiary of the Company for hotel operation. On the other hand, the iclub Wan Chai Hotel is self-operated by Regal REIT. This hotel in Wan Chai continued to be well received and maintained a high year-round average occupancy of 98.5%, although its average room rate decreased slightly by 1.5% year-on-year due to keen price competition.

In September 2016, Regal REIT concluded a new 5-year financing facility with a syndicate of local and international financial institutions, comprising a term loan of HK\$4,500.0 million and a revolving loan of up to HK\$1,000.0 million. The term loan portion was wholly used to repay the previous term loan facility in the same principal amount, which was originally due to mature in July 2018 and bore a higher interest margin. The new revolving loan facility will be reserved for Regal REIT's general corporate funding purposes.

Being one of the major hotel owners in Hong Kong, Regal REIT owns a total of eight operating hotels in Hong Kong, with an aggregate of 4,569 guest rooms and suites. The current portfolio of properties comprises a good mixture of full-service type hotels and select-service type hotels in strategic locations, which can cater to different demands from a wide range of business and leisure visitors to Hong Kong. The REIT Manager continues to closely monitor the performance of each property and evaluate any potential yield enhancement opportunities.

## **HOTEL OPERATIONS**

For the year under review, the five initial Regal Hotels have as a whole maintained steady performance. The combined average occupancy rate for these five hotels for 2016 was 86.0%, while the average room rate dropped by 3.2% year-on-year, which were generally in line with the related overall market averages in Hong Kong.

Total hotel revenue for the five initial Regal Hotels for 2016 amounted to HK\$1,864.4 million, as compared to HK\$1,894.6 million in the preceding year. The slight decrease in the total revenue was mainly due to the reduction in the achieved room rates while the food and beverage businesses have performed steadily. Total net property income amounted to HK\$770.9 million, which represented an excess of HK\$38.9 million over the aggregate base rent of HK\$732.0 for 2016, 50% of which was attributable to Regal REIT as variable rent.

The overall market environment encountered by the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel since they commenced business operations in 2014 has been relatively difficult and challenging. However, the business performance of these two hotels has gradually stabilised and improved in the year under review. Their combined average occupancy level in 2016 was 89.1%, an increase of about 3.6 percentage points over that in 2015, while their achieved RevPAR on a combined basis has improved by 3.4% year-on-year.

The market rental review for the five initial Regal Hotels for 2017 was completed in September 2016. The annual base rent for 2017 was determined to be HK\$733.0 million, reflecting an increment of HK\$1.0 million over the annual base rent of HK\$732.0 million for 2016, with variable rent continuing to be based on 50% sharing of the excess of the aggregate net property income over the aggregate base rent.

The initial three years of the lease terms for the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel with fixed rental payment terms end in February and July 2017, respectively. Thereafter, the rental packages for these two iclub hotels will be based on annual market rental determinations. Under the market rental review conducted for the iclub Sheung Wan Hotel, the pro-rated base rent from 10th February, 2017 to 31st December, 2017 is determined to be HK\$36.5 million, with variable rent basing on 50% sharing of the excess of

the net property income over the base rent. The market rental package for the iclub Fortress Hill Hotel is currently under review by an independent professional property valuer and will be determined before the end of April 2017.

As mentioned earlier, any shortfalls incurred by the Group in the income from the operation of these two hotels below the lease payments for the first three years of the lease terms will be fully reimbursed by P&R Holdings Limited, a 50:50 joint venture between the Group and Paliburg Holdings Limited, the immediate listed holding company of the Group, and which is the vendor of the properties to Regal REIT. The reimbursement of the shortfalls will be accounted for on a cumulative basis after the end of the 3-year period.

The La Mola Hotel & Conference Centre located in Barcelona, Spain was acquired by the Group in October 2014. The Group is presently engaged in discussions for the leasing of the hotel to an independent third party for hotel operation.

A wholly owned subsidiary of the Group tendered earlier in the year for a new hotel development project at the Hong Kong International Airport, which was accepted by the Airport Authority in February 2017. The consideration (representing non-refundable rental payment) payable for the acquisition of the development right of the hotel project is approximately HK\$2,188.9 million and under the terms of the development agreement, the Group will be granted a sub-lease for the operation of the hotel project for a term up to 17th September, 2066 after completion of the construction of the hotel project.

The hotel project has a site area of approximately 6,650 square metres (71,580 square feet) and permissible gross floor area of 33,700 square metres (362,750 square feet) and is surrounded by Terminal 2 of the Hong Kong International Airport, the Asia World-EXPO and SkyPier. The hotel project is the first phase of the mega SKYCITY Project by the Airport Authority, which contains large scale offices and retail, dining and entertainment facilities.

It is currently planned that the hotel project will be developed into a multi-storey hotel building providing about 1,200 guest rooms and suites with ancillary facilities. The construction of the hotel project is presently anticipated to be completed within a period of



four years. More details about this new hotel project are contained in the circular of the Company dated 3rd March, 2017 despatched to shareholders.

## **HOTEL MANAGEMENT**

Regal Hotels International Limited, the wholly owned management arm of the Group, is the hotel manager providing services to all the eight operating Regal and iclub Hotels in Hong Kong. The Group is also managing the La Mola Hotel & Conference Centre in Spain.

In China, the Group is managing nine hotels, four in Shanghai, two in Dezhou, one in Xi'an, one in Zhengzhou and one in Foshan. The two hotels that were most recently opened are, respectively, the Regal Financial Center Hotel in Foshan, a 230-room luxury hotel, in December 2015 and the iclub Yuhong Hotel in Zhengzhou, the first hotel managed by the Group under the iclub branding, in February 2016. Four other hotels to be managed by the Group are in the pipeline, including the latest addition of a 300-room full service hotel with a 960-square metre (10,330 square feet) ballroom, three restaurants, swimming pool, gym and spa facilities, located in Jiangmen, Guangdong Province.

The Group believes that the continuing expansion of the hotel management businesses in China will further strengthen the recognition of the “Regal” brand and promote reciprocal businesses among the Group’s different hotels.

## **PROPERTIES**

The Group’s property development business is primarily undertaken through P&R Holdings, the 50:50 joint venture with Paliburg. The property market in Hong Kong in the early part of 2016 was slightly affected by the weak economic conditions but as the economy gradually improved, the buying demand for residential properties quickly revived. To restrain speculative activities, the Hong Kong Government imposed in November 2016 a new flat 15% stamp duty on the purchases of residential units (except for Hong Kong permanent residents that do not own another residential property). However, due to the strong underlying demand for properties in Hong Kong, the imposition of this new measure has not significantly weakened the property market.

Mainland Chinese developer companies have been increasingly active in the bidding of residential sites offered for tender by the Hong Kong Government and a number of sites have recently been sold at tender prices well above market expectations. Though this will provide a strong support for the land prices, the current market conditions are proving more challenging for the Group to replenish its development land bank in Hong Kong, at least in the short term. With the continuing inflow of funds from Mainland Chinese investors, the prospects of the property market in Hong Kong will continue to be positive, although there could be uncertainties coming from external market factors including the upward trend in the interest rates.

As mentioned in the Interim Report 2016, the sale of the garden houses in P&R Holdings' residential project at Tan Kwai Tsuen Road in Yuen Long was first launched in May 2016 and up to date, 13 of the total 36 garden houses have been contracted for sale. In July 2016, P&R Holdings further launched the presale of the residential units in the commercial/residential joint venture project with the Urban Renewal Authority of Hong Kong at Shun Ning Road, Shum Shui Po, Kowloon. Response was favourable and 155 of the total 157 residential units have been sold.

Prior to the year end, P&R Holdings completed the disposal of a 50% equity interest in the entity that beneficially holds the hotel development at Ha Heung Road, To Kwa Wan, Kowloon, based on an agreed value of HK\$1,300 million for the hotel on an unencumbered basis. The attributable gain derived from this sale transaction has been reflected in the share of profits of joint ventures in the results of the Group for the year under review. Further details regarding this transaction were contained in the joint announcement by the Company dated 28th December, 2016.

Additional information on the development projects and properties of P&R Holdings, including those undertaken in China by Cosmopolitan International Holdings Limited, the listed subsidiary of P&R Holdings, are contained in the section headed "Management Discussion and Analysis" in this announcement.

Mostly recently, the Group entered into an agreement for the acquisition of the properties located at Nos.150-158 Queen's Road West, Hong Kong through the purchase of the equity interests in their property holding company. The properties have an aggregate site area of about 480 square metres (5,170 square feet) and are planned for a commercial/residential development.

During the year, the Group sold 3 garden houses in Regalia Bay, Stanley, two of which were properties held for sale and one held as investment property. As at 31st December, 2016, the Group retained a total of 15 houses, of which 8 houses are held as investment properties for rental income, 4 houses are held for sale and the remaining 3 houses as fixed assets. After the year end date, the Group further disposed of one house which was held for sale. Taking advantage of the buoyant market condition in the luxury residential properties in Hong Kong, the Group will continue to dispose of some of the remaining houses if favourable terms are offered.

## **OTHER INVESTMENTS**

The Group continues to maintain a sizable investment portfolio comprising listed securities, investment funds, bonds as well as treasury and yield enhancement products.

In an effort to diversify the Group's recurring income base, the Group has invested in the aircraft leasing business since 2012, which is contributing steady revenues. As at the last year end, the Group's aircraft fleet comprised a total of 14 aircraft, including two Airbus A321 model aircraft and 12 Embraer ERJ-135 and ERJ-145 model aircraft. Except for one Airbus aircraft which is 85% owned, all the other aircraft are wholly owned.

A letter of intent was entered into in January 2017 for the disposal of one of the Airbus A321 aircraft (the one that is wholly owned by the Group) and the relevant lease with the former lessee early terminated in February 2017. The other Airbus A321 aircraft which is 85% owned by the Group remained on operating lease as at the last year end date. During the year, the Group has effectively sold 7 of the Embraer aircraft through the entering into of the relevant finance leases, realising satisfactory returns. In addition, a finance lease arrangement for one other Embraer aircraft was concluded in December 2016, with completion only

pending for aircraft delivery. The remaining 4 Embraer aircraft continued to be running on operating leases. To replenish the aircraft fleet, the Group recently entered into a letter of intent for the acquisition of a mid-life Airbus A320 model aircraft with an operating lease attached.

## **OUTLOOK**

Although the performance of the tourist and hotel industries in Hong Kong for 2016 as a whole showed a continuing decline from their levels in 2015, the general market conditions have regained some momentum gradually in the latter part of the year. In the last quarter of 2016, the number of visitor arrivals to Hong Kong reverted back to growth and ended a period of 5 consecutive quarters of decline. For the first two months of 2017, the hotel market continued to perform steadily but the external market environment are posing increased uncertainties due to enhanced geopolitical tensions, uncertainties about policy directions in a number of major economies including the U.S. and potential volatility in the global financial markets, all of which may affect the pattern of development of the tourism and hospitality industry in Hong Kong.

The Hong Kong Government is committed to develop a wide range of diversified tourist attractions in Hong Kong, with a view to enhancing Hong Kong's overall attractiveness as a premier tourist destination. Meanwhile, the Hong Kong Tourism Board is promoting different events and festival activities from time to time, in order to attract visitors from around the world coming to Hong Kong.

It is acknowledged that Hong Kong's tourism industry has been buffeted by the headwinds of change and challenge in the past two years due to various reasons. However, the REIT Manager firmly believes in the resilience of Hong Kong and its ability to maintain its position as a favoured tourist destination, for both business and leisure travellers alike. The two major theme parks in Hong Kong, Ocean Park and Hong Kong Disneyland, are undergoing expansion plans to bring new attractions to enhance their competitiveness. Together with the several key infrastructure projects, including the Hongkong-Zhuhai-Macao Bridge and the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, which are

soon to be completed, they will undoubtedly help to speed up the recovery of the local tourism industry.

The undertaking of the new hotel project in the Hong Kong International Airport marks the confidence of the Group in the long term development prospects of Hong Kong's tourism and hotel industries and the conviction and commitment of the Group (including Regal REIT) to maintain its position as a prominent hotel owner and operator group in Hong Kong.

The various property projects in Hong Kong being developed by P&R Holdings were acquired at costs which are relatively low as compared to the current market prices. Accordingly, it can be expected that substantial cash flow and profit will be contributed to the Group over the next few years when these projects are gradually completed and sold.

At the same time, the Group is also actively reviewing various hotel and other investment opportunities, both in Hong Kong and overseas, with a view to further broadening the asset and income base of the Group.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group's significant investments and principal business activities mainly comprise hotel ownership business undertaken through Regal REIT, hotel operation and management businesses, asset management of Regal REIT, property development and investment, including those undertaken through the joint venture in P&R Holdings and the interest in the retained houses in Regalia Bay in Stanley, aircraft ownership and leasing business and other investments including financial assets investments.

The performance of the Group's hotel, property and other investment businesses as well as that of Regal REIT during the year under review, the commentary on the hotel and property sectors and the changes in general market conditions and the potential impact on their

operating performance and future prospects are contained in the above sections headed “Financial Results”, “Business Overview” and “Outlook” as well as in this sub-section.

The Group has no immediate plans for material investments or capital assets, other than those as disclosed in the above sections headed “Business Overview” and “Outlook” and in this sub-section.

## **JOINT VENTURE – P&R HOLDINGS LIMITED**

P&R Holdings is a 50:50 owned joint venture established with Paliburg, with capital contributions provided by the Company and Paliburg on a pro-rata basis in accordance with their respective shareholdings in P&R Holdings. The business scope of P&R Holdings is the development of real estate projects for sale and/or leasing, the undertaking of related investment and financing activities, and the acquisition or making of any investments (directly or indirectly) in the financial assets of or interests in, or extending loans to, any private, public or listed corporations or undertakings that have interests in real estate projects or other financial activities where the underlying assets or security comprise real estate properties.

Further information relating to the property development projects being undertaken and properties owned by the P&R Holdings group is set out below:

### **Hong Kong**

Apart from the Shun Ning Road development project in Sham Shui Po, Kowloon and the Anchor Street/Fuk Tsun Street development project in Tai Kok Tsui, Kowloon, both of which are being undertaken pursuant to the development contracts awarded by the Urban Renewal Authority of Hong Kong, and the Ha Heung Road development project in To Kwa Wan, Kowloon, all of the other ongoing development projects and properties are presently wholly owned by P&R Holdings group.

*Domus and Casa Regalia at Nos.65-89 Tan Kwai Tsuen Road, Yuen Long, New Territories*

This residential project has a site area of approximately 11,192 square metres (120,470 square feet) and provides a total of 170 units, comprising 36 luxurious garden houses and a low-rise apartment block with 134 units, having aggregate gross floor area of approximately 11,192 square metres (120,470 square feet). The occupation permit for the project was issued in November 2015 and the certificate of compliance was obtained in April 2016.

As previously reported, all the 134 units in the apartment block, named Domus, were sold in June 2015. The sale programme for the garden houses, named Casa Regalia, which constitute the main component of the development, was first launched in May 2016 and, up to date, 13 houses have been contracted to be sold. While the remaining houses are presently planned to be disposed of on a gradual basis, some of them may in the meantime be retained for rental income.

*iclub Ma Tau Wai Hotel at Nos.8, 8A, 10, 10A, 12 and 12A Ha Heung Road, To Kwa Wan, Kowloon*

As reported in the preceding section, following the sale of a 50% equity interest in the entity holding the project prior to the year end, it is now a 50% owned joint venture of P&R Holdings . The project has an aggregate site area of approximately 700 square metres (7,535 square feet) and has been developed into a 22-storey hotel (including 1 basement floor) with 340 guest rooms, having total gross floor area of approximately 6,298 square metres (67,790 square feet) and covered floor area of approximately 9,490 square metres (102,160 square feet). The occupation permit of the hotel was issued in November 2016. The hotel licence for the hotel is expected to be issued in the second quarter of 2017.

*Sha Tin Town Lot No.482 at Po Tai Street, Ma On Shan, Sha Tin, New Territories*

This development site has a site area of 5,090 square metres (54,788 square feet) and a maximum permissible gross floor area of 15,270 square metres (164,364 square feet). The site is being developed into a shopping mall with 5 storeys above ground level. The superstructure works are nearing completion and the development is scheduled to be completed in the fourth quarter of 2017. This property project is intended to be retained for rental income.

*Sha Tin Town Lot No.578, Area 56A, Kau To, Sha Tin, New Territories*

The project has a site area of 17,476 square metres (188,100 square feet) and is being developed into a luxurious residential development comprising 7 mid-rise apartment blocks with about 136 units, 24 detached garden houses and 198 carparking spaces, with aggregate gross floor area of approximately 32,474 square metres (349,547 square feet). The superstructure works are in progress. The completion of this development is presently scheduled for 2018.

*Nos.5-7 Bonham Strand West and Nos.169-171 Wing Lok Street, Sheung Wan*

The project has an aggregate site area of approximately 345 square metres (3,710 square feet) and is planned for the development of a hotel with 98 guest rooms and suites, with total gross floor area of approximately 5,236 square metres (56,360 square feet) and covered floor area of approximately 6,420 square metres (69,120 square feet). The foundation works have been completed. Excavation works for pile caps are in progress.

*The Ascent at No.83 Shun Ning Road, Sham Shui Po, Kowloon*

This is a joint venture project awarded by the Urban Renewal Authority of Hong Kong through a tender process in March 2014. The land has a site area of 824.9 square metres (8,879 square feet) and is being developed into a 28-storey commercial/residential building (including 1 basement floor) with total gross floor area of 7,159 square metres (77,059 square feet), providing 157 residential units, 2 storeys of shops and 1 storey of basement carpark. The superstructure works are in progress and the development is scheduled to be completed before the end of 2017. The presale of the residential units in this development was launched in July 2016 and, up to date, 155 of the total 157 residential units have been contracted to be sold.

*iclub Mong Kok Hotel at Anchor Street/Fuk Tsun Street, Tai Kok Tsui, Kowloon*

This is a hotel development project also awarded by the Urban Renewal Authority of Hong Kong through a tender process in June 2015, which has a site area of 725.5 square metres (7,809 square feet). The project has total permissible gross floor area of approximately 6,529 square metres (70,278 square feet) and covered floor area of approximately 9,355 square metres (100,697 square feet) and is being developed into a 20-storey hotel building comprising about 288 guest rooms, with ancillary accommodation. The superstructure works



have commenced and the development project is presently anticipated to be completed in 2018.

## **COSMOPOLITAN INTERNATIONAL HOLDINGS LIMITED**

Cosmopolitan is a listed subsidiary of P&R Holdings. Further information relating to the property projects, all of which are wholly owned, and the 60% owned logistics business currently undertaken by the Cosmopolitan group in the PRC is set out below:

### **Property Development**

#### *Chengdu Project – Regal Cosmopolitan City*

Located in the Xindu District in Chengdu, Sichuan Province, the project is a mixed use development consisting of hotel, commercial, office, serviced apartments and residential components, with an overall total gross floor area of approximately 497,000 square metres (5,350,000 square feet). The first stage of the development includes a hotel with about 311 hotel rooms and extensive facilities, three residential towers with 339 residential units, car parking spaces and ancillary commercial accommodation. The business remodeling works of the hotel have been completed and the interior design works are in progress accordingly. The hotel is scheduled to open in phases from 2018. The second stage of the development comprises six residential towers with 957 units, the superstructure works for which have also been completed. The completion of the residential towers in both the first and second stages of the development is expected to be in the latter part of 2017. Following the presale of a total of 362 units in three residential towers in the first and second stages which commenced from April 2016, the presale of the units in four other residential towers within the second stage of the development has been launched in tranches since September 2016 and response was favourable. Up to date, a total of 850 residential units have been contracted to be sold, securing aggregate sales proceeds of approximately RMB528 million (equivalent to approximately HK\$597 million). Presale of the two remaining residential towers is planned to be launched later this year. The other components within the development, comprising commercial and office space, serviced apartments and additional residential units, will continue to be developed in stages.

### *Tianjin Project – Regal Renaissance*

Located in the Hedong District in Tianjin, this project entails a development site with total site area of about 31,700 square metres (341,000 square feet), which is planned for a mixed use development comprising commercial, office and residential components with total gross floor area of about 145,000 square metres (1,561,000 square feet). While the superstructure works of the four residential towers and the commercial complex have been completed, the superstructure works of the two office towers are in progress. The Cosmopolitan group has further launched the unit presales of the remaining residential tower in the 4th quarter of 2016. Up to date, 443 residential units have been sold, realising contracted sales of approximately RMB1,319 million (equivalent to approximately HK\$1,492 million). The presale of the commercial complex, comprising mainly shops of about 19,000 square metres (205,000 square feet), and 530 residential car parking spaces commenced in August 2016, and there have been contracted sales of approximately RMB62 million (equivalent to approximately HK\$70 million). Under the present construction programme, the residential towers, the commercial complex and the residential car parking spaces are scheduled to be completed before the end of 2017 and the other components will follow to be completed in stages.

### *Xinjiang Project*

This is a re-forestation and land grant project for a land parcel with site area of about 7,600 mu in accordance with the relevant laws and policies in Urumqi, Xinjiang Uygur Autonomous Region. The Cosmopolitan group has re-forested an aggregate area of about 4,300 mu within the project site and in accordance with the relevant government policies of Urumqi, a parcel of land with an area of about 1,843 mu (equivalent to approximately 1,228,700 square metres) within the project site will be available for real estate development after the requisite inspection, land grant listing and tender procedures are completed.

The Cosmopolitan group has completed the re-organisation of the local management team and will soon initiate measures to settle the land disputes with the surrounding villagers, with an aim to resume the possession of certain parcels of land within the project site being illegally occupied. Based on the legal advice obtained, the legitimate interests of the Cosmopolitan group in this re-forestation and land grant contract remain valid and effective. The Cosmopolitan group is planning to have the required remedial re-forestation works carried out as soon as practicable, such that the inspection and measurement of the reforested

area by the relevant government authorities can be resumed and the final procedures leading to the land grant listing and tender of the development land may be concluded.

## **Logistics Business**

### *Shanghai Logistics Project*

With the aim of diversifying and broadening its business portfolio through the expansion and development of the logistics business and capitalising on the increasing demands for logistics services market by e-commerce merchants in Mainland China, the Cosmopolitan group entered into certain agreements to acquire an effective 60% interest in a group of companies (the “Logistics Group”) operating logistics and related businesses in the PRC, details of which were disclosed in the announcements of Cosmopolitan dated 13th January, 2016, 11th March, 2016, 12th April, 2016 and 29th April, 2016. The Cosmopolitan group completed the acquisition on 31st May, 2016 and the Logistics Group has since become a subsidiary undertaking of the Cosmopolitan group. The Cosmopolitan group recognised a gain on bargain purchase of HK\$3.1 million upon the business combination during the year, which is based on the fair value estimation of the considerations transferred and identifiable net assets acquired.

One of the companies within the Logistics Group is a licensed courier services provider in the PRC. It has leased certain industrial premises with an aggregate lettable area of about 40,000 square metres (431,000 square feet) in Pudong, Shanghai, the PRC (the “Leased Property”) from an affiliated company of the ultimate 40% shareholder of the Logistics Group to operate the logistics and related businesses. The ultimate 40% shareholder of the Logistics Group has also through his wholly owned subsidiary entered into a consultancy agreement with the Logistics Group to procure the development and expansion of the logistics businesses with an additional business operating area of 120,000 square metres (1,292,000 square feet). The shareholders of the company owning the Leased Property (being the ultimate 40% shareholder of the Logistics Group and his family member) have granted a purchase option to the Logistics Group to acquire the aforesaid property holding company owning the Leased Property and its wholly owned subsidiary which has a contractual right to acquire the land parcel adjacent to the Leased Property. Further details of the above-mentioned acquisition,

consultancy agreement, purchase option and other related transactions were disclosed in the related announcements.

Since the completion of the acquisition, the Logistics Group has performed profitably and steadily. As at 31st December, 2016, the occupancy rate of the Leased Property is about 76%, based on the area available for sub-letting of about 38,000 square metres (409,000 square feet), of which about 75% of the leased out areas are rented to e-commerce merchants (who exclusively use the courier services provided by the Logistics Group) and the remaining areas rented to other tenants with fixed-rate rentals. In light of the positive outlook of the e-commerce market in China and taking into account the planned expansion of the logistics business, it is expected that the Logistics Group would generate satisfactory income to the Cosmopolitan group.

#### **ASSOCIATE – HANG FOK PROPERTIES LIMITED**

Hang Fok is an entity that is 50% beneficially owned by each of the Paliburg group and the Group. Hang Fok holds equity interests in a joint venture project company involved in a development project in the Central Business District in Beijing, the PRC. As previously reported, Hang Fok was engaged in a series of legal actions in the PRC with the other joint venture parties in the Beijing project, some of which were initiated by Hang Fok to protect its equity interests in the Beijing project. As also reported before, in the process of the legal actions taken, Hang Fok has recovered in February 2016 about RMB195 million (equivalent to approximately HK\$228.4 million) from the joint venture project company, as repayment of certain of the shareholder's loans owing to Hang Fok, plus accrued contractual interest thereon. As at 31st December, 2016, the interest held by the Group in the project was carried in the consolidated financial statements at an insignificant amount. In March 2017, Hang Fok further recovered an additional amount of about RMB34 million (equivalent to approximately HK\$37.8 million) from the joint venture project company, which principally represents late payment interest as required by the relevant court rules in the PRC. The Group will continue to exercise strenuous efforts with a view to salvaging the value of the Group's interest in this investment.

## FINANCIAL REVIEW

### ASSETS VALUE

The Group's hotel properties in Hong Kong are owned by Regal REIT and, with the exception of the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel, were stated in the financial statements at their fair values as at 23rd July, 2010 when Regal REIT became a subsidiary of the Group, plus subsequent capital additions and deducting accumulated depreciation. The market valuations of these hotel properties have since appreciated substantially but have not been reflected in the Group's financial statements. Moreover, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel were stated in the Group's financial statements at their fair values at the time of acquisition net of the unrealised gain attributable to the Group and are also subject to depreciation. For the purpose of providing supplementary information, if the Group's entire hotel property portfolio in Hong Kong is restated in the consolidated financial statements at its market value as at 31st December, 2016, the unaudited adjusted net asset value of the ordinary shares of the Company would be HK\$19.16 per share, as follows:

	As at 31st December, 2016	
	HK\$'M	HK\$ per ordinary share
<b>Book net assets attributable to equity holders of the parent</b>	<b>11,828.4</b>	<b>12.91</b>
<b>Adjustment to restate the Group's hotel property portfolio at its market value and add back the relevant deferred tax liabilities</b>	<b>5,726.4</b>	<b>6.25</b>
<b>Unaudited adjusted net assets attributable to equity holders of the parent</b>	<b>17,554.8</b>	<b>19.16</b>

### CAPITAL RESOURCES AND FUNDING

#### Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. Cash balances are mostly placed on bank deposits, and treasury and yield

enhancement products are deployed when circumstances are considered to be appropriate.

The Group's banking facilities are mostly denominated in Hong Kong dollar with interest primarily determined with reference to interbank offered rates, while its senior unsecured notes are denominated in US dollar and Hong Kong dollar with fixed coupon interest rates. The use of hedging instruments for interest rate purposes to cater to business and operational needs is kept under review by the Group's management from time to time. As the Hong Kong dollar is pegged to the US dollar, the exchange risks are considered to be insignificant and no currency hedging has been deployed. As regards the Group's overseas investments which are based in currencies other than US dollar and Hong Kong dollar, the Group will consider hedging part or all of the investment amounts into US dollar or Hong Kong dollar to contain the Group's exposure to currency fluctuation.

### **Cash Flows**

During the year under review, there were net cash flows generated from operating activities of HK\$2,200.6 million (2015 – HK\$808.5 million). Net interest payment for the year amounted to HK\$135.4 million (2015 – HK\$138.3 million).

### **Borrowings and Gearing**

As at 31st December, 2016, the Group had cash and bank balances and deposits of HK\$4,029.3 million (2015 – HK\$1,573.2 million) and the Group's borrowings net of cash and bank balances and deposits amounted to HK\$9,232.4 million (2015 – HK\$9,135.6 million).

As at 31st December, 2016, the gearing ratio of the Group was 33.2% (2015 – 36.0%), representing the Group's borrowings net of cash and bank balances and deposits of HK\$9,232.4 million (2015 – HK\$9,135.6 million) as compared to the total assets of the Group of HK\$27,799.4 million (2015 – HK\$25,342.6 million).

On the basis of the adjusted total assets as at 31st December, 2016 of HK\$34,998.6 million (2015 – HK\$32,011.5 million) with the Group's hotel portfolio restated at its market value, the gearing ratio would be 26.4% (2015 – 28.5%).

Details of the maturity profile of the borrowings of the Group as of 31st December, 2016 are shown in the consolidated financial statements (“Financial Statements”) contained in the annual report of the Company for the year ended 31st December, 2016 (the “2016 Annual Report”) to be published on or before 30th April, 2017.

### **Pledge of Assets**

As at 31st December, 2016, certain of the Group’s time deposits, bank balances, financial assets at fair value through profit or loss and held-to-maturity investments in the amount of HK\$413.8 million were pledged to secure bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT, and certain of the Group’s property, plant and equipment, investment properties, available-for-sale investments, financial assets at fair value through profit or loss, held-to-maturity investments, time deposits and bank balances in the total amount of HK\$12,272.4 million were also pledged to secure other banking facilities granted to the Group.

As at 31st December, 2015, certain of the Group’s time deposits, bank balances, financial assets at fair value through profit or loss and held-to-maturity investments in the amount of HK\$462.1 million were pledged to secure bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT, and certain of the Group’s property, plant and equipment, investment properties, properties held for sale, available-for-sale investments, financial assets at fair value through profit or loss, held-to-maturity investments, time deposits and bank balances in the total amount of HK\$11,412.8 million were also pledged to secure other banking facilities granted to the Group.

### **Capital Commitments**

Details of the capital commitments of the Group as at 31st December, 2016 are shown in the Financial Statements.

### **Contingent Liabilities**

As at 31st December, 2016, the Group had contingent liabilities not provided for in the financial statements for corporate guarantees provided in respect of attributable share of banking facilities granted to subsidiaries of a joint venture in the amount of HK\$2,579.4 million (2015 – HK\$3,123.5 million), of which HK\$1,566.8 million (2015 – HK\$1,540.1 million) was utilised.

### **DIVIDEND**

The Directors have resolved to recommend the payment of a final dividend of HK9.0 cents (2015 – HK9.0 cents) per ordinary share for the year ended 31st December, 2016. This proposed final dividend will absorb an amount of approximately HK\$82.4 million (2015 – HK\$83.2 million) and will be payable to holders of ordinary shares on the Register of Ordinary Shareholders on 15th June, 2017.

Together with the interim dividend of HK4.0 cents (2015 – HK4.0 cents) per ordinary share paid in October 2016, total dividends per ordinary share for the year ended 31st December, 2016 will amount to HK13.0 cents (2015 – HK13.0 cents).

### **ANNUAL GENERAL MEETING**

An Annual General Meeting of the Company will be convened to be held on Wednesday, 7th June, 2017. The Notice of the Annual General Meeting will be published on the websites of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Company and sent to the shareholders of the Company, together with the Company’s 2016 Annual Report, in due course.



## **CLOSURE OF REGISTER**

The Register of Ordinary Shareholders of the Company will be closed during the following periods, and no transfers of shares will be effected during such periods:

- (i) from Friday, 2nd June, 2017 to Wednesday, 7th June, 2017, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2017 Annual General Meeting. In order to be entitled to attend and vote at the 2017 Annual General Meeting, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited (the "Branch Registrar"), no later than 4:30 p.m. on Thursday, 1st June, 2017; and
  
- (ii) from Tuesday, 13th June, 2017 to Thursday, 15th June, 2017, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Branch Registrar no later than 4:30 p.m. on Monday, 12th June, 2017.

The relevant dividend warrants for the aforesaid final dividend are expected to be despatched on or about 26th June, 2017.

## YEAR END RESULTS

### Consolidated Statement of Profit or Loss

	Year ended 31st December, 2016	Year ended 31st December, 2015
	HK\$'M	HK\$'M
REVENUE (Notes 2 & 3)	2,617.1	2,471.8
Cost of sales	(1,428.7)	(1,349.7)
Gross profit	1,188.4	1,122.1
Other income and gain, net (Note 3)	112.9	168.6
Fair value gains/(losses) on financial assets at fair value through profit or loss, net	(46.8)	14.3
Fair value losses on investment properties, net	(41.4)	(4.7)
Fair value gain upon reclassification of a property held for sale to an investment property	58.5	–
Property selling and marketing expenses	(7.6)	(3.2)
Administrative expenses	(276.9)	(250.8)
OPERATING PROFIT BEFORE DEPRECIATION	987.1	1,046.3
Depreciation	(530.3)	(511.2)
OPERATING PROFIT (Notes 2 & 4)	456.8	535.1
Finance costs (Note 5)	(395.4)	(330.3)
Share of profits and losses of:		
Joint ventures	233.1	14.2
Associates	(12.4)	(22.2)
PROFIT BEFORE TAX	282.1	196.8
Income tax (Note 6)	(41.3)	(36.9)
PROFIT FOR THE YEAR BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS	240.8	159.9

## Consolidated Statement of Profit or Loss (Cont'd)

	Year ended 31st December, 2016 HK\$'M	Year ended 31st December, 2015 HK\$'M
Attributable to:		
Equity holders of the parent	213.7	119.0
Non-controlling interests	27.1	40.9
	<hr/> 240.8 <hr/>	<hr/> 159.9 <hr/>
<b>EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Note 8)</b>		
Basic and diluted	<hr/> <b>HK\$0.23</b> <hr/>	<hr/> HK\$0.13 <hr/>

## Consolidated Statement of Comprehensive Income

	Year ended 31st December, 2016	Year ended 31st December, 2015
	HK\$'M	HK\$'M
PROFIT FOR THE YEAR BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS	240.8	159.9
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of available-for-sale investments	(4.8)	22.1
Cash flow hedges:		
Changes in fair value of cash flow hedges	–	(0.3)
Transfer from hedge reserve to the statement of profit or loss	–	1.0
	–	0.7
Exchange differences on translating foreign operations	(16.2)	(22.6)
Share of other comprehensive loss of:		
A joint venture	(85.8)	(54.2)
An associate	(0.1)	(0.1)
Other comprehensive loss for the year	(106.9)	(54.1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	133.9	105.8
Attributable to:		
Equity holders of the parent	106.8	64.8
Non-controlling interests	27.1	41.0
	133.9	105.8

## Consolidated Statement of Financial Position

	31st December, 2016	31st December, 2015
	HK\$'M	HK\$'M
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	15,330.7	15,875.6
Investment properties	1,026.0	1,070.0
Investments in joint ventures	3,146.8	3,327.6
Investments in associates	6.5	125.1
Available-for-sale investments	236.6	133.4
Financial asset at fair value through profit or loss	1.9	1.9
Other loan	1,350.0	–
Finance lease receivables	36.8	–
Debtors and deposits (Note 9)	5.4	5.4
Deferred tax assets	94.0	79.1
	<hr/>	<hr/>
Total non-current assets	21,234.7	20,618.1
	<hr/>	<hr/>
<b>CURRENT ASSETS</b>		
Properties held for sale	264.6	479.4
Inventories	33.0	33.9
Debtors, deposits and prepayments (Note 9)	303.4	1,633.4
Finance lease receivables	36.3	–
Held-to-maturity investments	466.7	201.2
Financial assets at fair value through profit or loss	918.4	795.6
Other loan	500.0	–
Derivative financial instruments	12.8	4.7
Tax recoverable	0.2	3.1
Restricted cash	63.5	46.4
Pledged time deposits and bank balances	265.1	346.3
Time deposits	2,595.1	400.2
Cash and bank balances	1,105.6	780.3
	<hr/>	<hr/>
Total current assets	6,564.7	4,724.5
	<hr/>	<hr/>

## Consolidated Statement of Financial Position (Cont'd)

	31st December, 2016	31st December, 2015
	HK\$'M	HK\$'M
<b>CURRENT LIABILITIES</b>		
Creditors, deposits received and accruals (Note 10)	(498.8)	(424.4)
Interest bearing bank borrowings	(188.0)	(279.9)
Other borrowings	(2,281.7)	–
Derivative financial instruments	(5.7)	–
Tax payable	(60.8)	(36.0)
Total current liabilities	(3,035.0)	(740.3)
NET CURRENT ASSETS	3,529.7	3,984.2
TOTAL ASSETS LESS CURRENT LIABILITIES	24,764.4	24,602.3
<b>NON-CURRENT LIABILITIES</b>		
Creditors and deposits received	(135.6)	(147.0)
Interest bearing bank borrowings	(6,170.7)	(6,187.0)
Other borrowings	(4,621.3)	(4,241.9)
Deferred tax liabilities	(954.6)	(1,004.8)
Total non-current liabilities	(11,882.2)	(11,580.7)
Net assets	12,882.2	13,021.6
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the parent</b>		
Issued capital	91.6	92.4
Reserves	11,736.8	11,770.6
	11,828.4	11,863.0
<b>Non-controlling interests</b>	1,053.8	1,158.6
Total equity	12,882.2	13,021.6

Notes:

1. Basis of Preparation and Accounting Policies

The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain available-for-sale investments, financial assets at fair value through profit or loss and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest million except when otherwise indicated.

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

The adoption of these new and revised HKFRSs has had no significant financial effect on the Group's results of operation and financial position.

## 2. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has six reportable operating segments as follows:

- (a) the hotel operation and management and hotel ownership segment engages in hotel operations and the provision of hotel management services, and the ownership in hotel properties for rental income through Regal REIT;
- (b) the asset management segment engages in the provision of asset management services to Regal REIT;
- (c) the property development and investment segment includes investments in properties for sale and for rental income, and the provision of property agency and management services;
- (d) the financial assets investments segment engages in trading of financial assets at fair value through profit or loss and other financial assets investments;
- (e) the aircraft ownership and leasing segment engages in the aircraft ownership and leasing for rental income; and
- (f) the others segment mainly comprises travel agency services, sale of food products, operation of security storage lounge, the provision of housekeeping services and development and distribution of multimedia entertainment and digital educational content and multi-platform social games.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a



measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that certain interest income, finance costs, head office and corporate gains and expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, restricted cash, pledged time deposits and bank balances, time deposits, cash and bank balances, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest bearing bank borrowings, other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's operating segments for the years ended 31st December, 2016 and 2015:

	<b>Hotel operation and management and hotel ownership</b>		<b>Asset management</b>		<b>Property development and investment</b>		<b>Financial assets investments</b>		<b>Aircraft ownership and leasing</b>		<b>Others</b>		<b>Eliminations</b>		<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>	<b>HK\$'M</b>
Segment revenue:																
Sales to external customers	2,153.9	2,171.3	-	-	215.9	133.6	135.4	38.0	99.0	91.9	12.9	37.0	-	-	2,617.1	2,471.8
Intersegment sales	3.0	-	96.2	96.2	3.9	5.3	-	-	-	-	24.9	3.1	(128.0)	(104.6)	-	-
<b>Total</b>	<b>2,156.9</b>	<b>2,171.3</b>	<b>96.2</b>	<b>96.2</b>	<b>219.8</b>	<b>138.9</b>	<b>135.4</b>	<b>38.0</b>	<b>99.0</b>	<b>91.9</b>	<b>37.8</b>	<b>40.1</b>	<b>(128.0)</b>	<b>(104.6)</b>	<b>2,617.1</b>	<b>2,471.8</b>
Segment results before depreciation	792.3	835.3	(11.9)	(13.5)	112.7	125.0	97.7	63.7	106.3	118.0	(7.3)	(4.7)	-	-	1,089.8	1,123.8
Depreciation	(466.5)	(464.0)	(0.4)	(0.4)	(5.9)	(5.9)	-	-	(54.3)	(39.9)	(3.2)	(1.0)	-	-	(530.3)	(511.2)
<b>Segment operating results</b>	<b>325.8</b>	<b>371.3</b>	<b>(12.3)</b>	<b>(13.9)</b>	<b>106.8</b>	<b>119.1</b>	<b>97.7</b>	<b>63.7</b>	<b>52.0</b>	<b>78.1</b>	<b>(10.5)</b>	<b>(5.7)</b>	<b>-</b>	<b>-</b>	<b>559.5</b>	<b>612.6</b>
Unallocated interest income and unallocated non-operating and corporate gains															16.4	16.2
Unallocated non-operating and corporate expenses, net															(119.1)	(93.7)
<b>Operating profit</b>															<b>456.8</b>	<b>535.1</b>
Finance costs															(395.4)	(330.3)
Share of profits and losses of:																
Joint ventures	-	-	-	-	233.1	14.2	-	-	-	-	-	-	-	-	233.1	14.2
Associates	1.8	-	-	-	(2.3)	(3.5)	-	-	-	-	(11.9)	(18.7)	-	-	(12.4)	(22.2)
<b>Profit before tax</b>															<b>282.1</b>	<b>196.8</b>
Income tax															(41.3)	(36.9)
<b>Profit for the year before allocation between equity holders of the parent and non-controlling interests</b>															<b>240.8</b>	<b>159.9</b>
Attributable to:																
Equity holders of the parent															213.7	119.0
Non-controlling interests															27.1	40.9
															<b>240.8</b>	<b>159.9</b>

	Hotel operation and management and hotel ownership		Asset management		Property development and investment		Financial assets investments		Aircraft ownership and leasing		Others		Eliminations		Consolidated	
	2016 HK\$'M	2015 HK\$'M	2016 HK\$'M	2015 HK\$'M	2016 HK\$'M	2015 HK\$'M	2016 HK\$'M	2015 HK\$'M	2016 HK\$'M	2015 HK\$'M	2016 HK\$'M	2015 HK\$'M	2016 HK\$'M	2015 HK\$'M	2016 HK\$'M	2015 HK\$'M
Segment assets	15,362.1	15,747.1	42.6	37.5	3,144.9	2,915.1	1,656.0	1,157.7	317.4	387.1	16.6	24.9	(40.7)	(35.5)	20,498.9	20,233.9
Investments in joint ventures	-	-	-	-	3,146.8	3,327.6	-	-	-	-	-	-	-	-	3,146.8	3,327.6
Investments in associates	-	7.1	-	-	(4.1)	110.6	-	-	-	-	10.6	7.4	-	-	6.5	125.1
Cash and unallocated assets															4,147.2	1,656.0
Total assets															<u>27,799.4</u>	<u>25,342.6</u>
Segment liabilities	(391.6)	(379.6)	(2.4)	(1.5)	(40.6)	(5.3)	(10.5)	(18.1)	(138.4)	(170.1)	(2.7)	(3.9)	40.7	35.5	(545.5)	(543.0)
Bank borrowings and unallocated liabilities															<u>(14,371.7)</u>	<u>(11,778.0)</u>
Total liabilities															<u>(14,917.2)</u>	<u>(12,321.0)</u>
Other segment information:																
Interest income	-	(0.5)	-	-	(90.4)	(87.7)	(35.6)	(30.8)	(1.0)	-	-	-				
Fair value losses/(gains) on financial assets at fair value through profit or loss, net	-	-	-	-	-	-	46.8	(14.3)	-	-	-	-				
Fair value losses/(gains) on investment properties, net	(9.0)	(11.0)	-	-	50.4	15.7	-	-	-	-	-	-				
Fair value gain upon reclassification of a property held for sale to an investment property	-	-	-	-	(58.5)	-	-	-	-	-	-	-				
Gain on disposal of items of property, plant and equipment, net	-	(0.2)	-	-	-	-	-	-	(19.6)	(38.1)	-	-				
Capital expenditure	<u>73.6</u>	<u>101.4</u>	<u>0.1</u>	<u>0.2</u>	<u>3.2</u>	<u>1.2</u>	<u>-</u>	<u>-</u>	<u>2.6</u>	<u>363.5</u>	<u>3.1</u>	<u>7.3</u>				

## Geographical information

### (a) Revenue from external customers

	<b>2016</b>	<b>2015</b>
	<b>HK\$'M</b>	<b>HK\$'M</b>
Hong Kong	<b>2,433.6</b>	2,285.5
Mainland China	<b>23.0</b>	43.5
Other	<b>160.5</b>	142.8
	<b>2,617.1</b>	2,471.8

The revenue information above is based on the locations of the customers, except for the property development and investment segment which is based on the locations of the properties.

### (b) Non-current assets

	<b>2016</b>	<b>2015</b>
	<b>HK\$'M</b>	<b>HK\$'M</b>
Hong Kong	<b>17,810.7</b>	18,218.5
Mainland China	<b>1,380.5</b>	1,710.6
Other	<b>318.8</b>	469.2
	<b>19,510.0</b>	20,398.3

The non-current assets information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

## Information about major customer

No further information about major customer is presented as no more than 10% of the Group's revenue was derived from sales to any single customer.

3. Revenue, other income and gain, net are analysed as follows:

	<b>2016</b>	<b>2015</b>
	<b>HK\$'M</b>	<b>HK\$'M</b>
<u>Revenue</u>		
Hotel operations and management services	<b>2,102.9</b>	2,117.3
Other operations, including estate management, estate agency, travel agency and sale of food products	<b>14.6</b>	39.3
Rental income:		
Hotel properties	<b>44.1</b>	47.2
Investment properties	<b>15.1</b>	15.4
Aircraft	<b>98.0</b>	91.9
Others	<b>2.6</b>	2.7
Net gain from sale of financial assets at fair value through profit or loss	<b>99.5</b>	10.9
Net gain on settlement of derivative financial instruments	<b>3.4</b>	1.4
Interest income from financial assets at fair value through profit or loss	<b>26.0</b>	18.5
Interest income from finance leases	<b>1.0</b>	–
Dividend income from listed investments	<b>6.5</b>	7.2
Sale of properties	<b>203.4</b>	120.0
	<b>2,617.1</b>	2,471.8
<u>Other income and gain, net</u>		
Bank interest income	<b>14.8</b>	14.8
Other interest income	<b>100.8</b>	101.2
Loss on disposal of an investment property	<b>(23.7)</b>	–
Gain on disposal of items of property, plant and equipment, net	<b>19.6</b>	38.3
Others	<b>1.4</b>	14.3
	<b>112.9</b>	168.6

4. An analysis of profit on sale of investments and properties of the Group included in the operating profit is as follows:

	<b>2016</b>	<b>2015</b>
	<b>HK\$'M</b>	<b>HK\$'M</b>
Profit from sale of financial assets at fair value through profit or loss	<b>99.5</b>	10.9
Profit on settlement of derivative financial instruments	<b>3.4</b>	1.4
Profit on disposal of properties	<b>21.6</b>	52.4
	<hr/>	<hr/>

5. Finance costs of the Group are as follows:

	<b>2016</b>	<b>2015</b>
	<b>HK\$'M</b>	<b>HK\$'M</b>
Interest on bank loans	<b>113.6</b>	119.2
Interest on other borrowings	<b>231.4</b>	183.0
Amortisation of debt establishment costs	<b>46.9</b>	23.1
	<hr/>	<hr/>
Total interest expenses on financial liabilities not at fair value through profit or loss	<b>391.9</b>	325.3
Fair value changes on derivative financial instruments – cash flow hedge (transfer from hedge reserve)	–	1.0
Other loan costs	<b>3.5</b>	4.0
	<hr/>	<hr/>
	<b>395.4</b>	330.3
	<hr/> <hr/>	<hr/> <hr/>

6. The income tax charge/(credit) for the year arose as follows:

	<b>2016</b>	<b>2015</b>
	<b>HK\$'M</b>	<b>HK\$'M</b>
Current – Hong Kong		
Charge for the year	<b>97.7</b>	83.0
Underprovision/(overprovision) in prior years	<b>7.4</b>	(1.9)
Current – Overseas		
Charge for the year	<b>0.8</b>	0.9
Deferred	<b>(64.6)</b>	(45.1)
Total tax charge for the year	<b>41.3</b>	36.9

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16.5% (2015 – 16.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

Taxes on the profits of subsidiaries operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate.

The share of tax credit attributable to a joint venture and associates amounting to HK\$0.1 million and nil, respectively (2015 – HK\$0.1 million and nil, respectively) is included in “Share of profits and losses of joint ventures and associates” in the consolidated statement of profit or loss.

7. Dividends:

	<b>2016</b>	<b>2015</b>
	<b>HK\$'M</b>	<b>HK\$'M</b>
Interim – HK4.0 cents (2015 – HK4.0 cents) per ordinary share	<b>37.0</b>	37.0
Proposed final – HK9.0 cents (2015 – HK9.0 cents) per ordinary share	<b>82.4</b>	83.2
	<b>119.4</b>	120.2

8. The calculation of the basic earnings per ordinary share is based on the profit for the year attributable to equity holders of the parent of HK\$213.7 million (2015 – HK\$119.0 million) and on the weighted average of 921.6 million (2015 – 924.1 million) ordinary shares of the Company in issue during the year.

No adjustment has been made to the basic earnings per ordinary share amount presented for the years ended 31st December, 2016 and 2015 as the Company had no potentially dilutive ordinary shares in issue and therefore no diluting events existed throughout the years.



9. Included in debtors, deposits and prepayments is an amount of HK\$138.6 million (2015 – HK\$1,518.3 million) representing the trade debtors of the Group. The aged analysis of these debtors as at the end of the reporting period is as follows:

	<b>2016</b>	<b>2015</b>
	<b>HK\$'M</b>	<b>HK\$'M</b>
Outstanding balances with ages:		
Within 3 months	<b>118.4</b>	125.7
Between 4 to 6 months	<b>3.2</b>	6.0
Between 7 to 12 months	<b>5.2</b>	5.3
Over 1 year	<b>13.5</b>	1,383.6
	<hr/>	<hr/>
	<b>140.3</b>	1,520.6
Impairment	<b>(1.7)</b>	(2.3)
	<hr/>	<hr/>
	<b>138.6</b>	1,518.3
	<hr/>	<hr/>

### **Credit terms**

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at their original invoiced amounts less impairment which is made when collection of the full amounts is no longer probable. Bad debts are written off as incurred.

The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances.

10. Included in creditors, deposits received and accruals is an amount of HK\$79.0 million (2015 – HK\$76.4 million) representing the trade creditors of the Group. The aged analysis of these creditors as at the end of the reporting period, based on the invoice date, is as follows:

	<b>2016</b>	<b>2015</b>
	<b>HK\$'M</b>	<b>HK\$'M</b>
Outstanding balances with ages:		
Within 3 months	<b>78.7</b>	76.3
Between 4 to 6 months	<b>0.2</b>	–
Over 1 year	<b>0.1</b>	0.1
	<hr/> <b>79.0</b> <hr/>	<hr/> 76.4 <hr/>

The trade creditors are non-interest bearing and are normally settled within 90 days.

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

During the year ended 31st December, 2016, the Company repurchased a total of 7,996,000 ordinary shares of the Company at aggregate purchase prices of HK\$34,615,120 on the Stock Exchange. Details of the repurchases of such ordinary shares were as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per ordinary share		Aggregate purchase price (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
August 2016	540,000	4.230	3.890	2,234,100
September 2016	6,592,000	4.420	4.210	28,634,100
October 2016	864,000	4.410	4.310	3,746,920
	7,996,000			34,615,120
		Total expenses on shares repurchased		99,974
		Dividends received before cancellation		(5,118)
			Total	34,709,976

All the above 7,996,000 repurchased ordinary shares were cancelled during the year. The issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The above repurchases were effected by the Directors pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole in enhancing the net assets and earnings per share of the Company.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year.

## **REVIEW OF RESULTS**

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31st December, 2016, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditors.

## **CORPORATE GOVERNANCE**

The Company has complied with the Code Provisions in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the year ended 31st December, 2016, except that:

- (1) The roles of the Chairman and Chief Executive Officer are not separated and performed by two different individuals, due to practical necessity to cater to the Group's corporate operating structure.
- (2) The Non-Executive Director and Independent Non-Executive Directors of the Company were not appointed for specific terms, but in accordance with the provisions of the Bye-laws of the Company, all Directors (including the Non-Executive Director and the Independent Non-Executive Directors) of the Company are subject to retirement by rotation at least once every three years, and the retiring Directors are eligible for re-election.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises the following members:

***Executive Directors:***

Mr. LO Yuk Sui

*(Chairman and Chief Executive Officer)*

Miss LO Po Man

*(Vice Chairman and Managing Director)*

Ms. Belinda YEUNG Bik Yiu

*(Chief Operating Officer)*

Mr. Donald FAN Tung

Mr. Jimmy LO Chun To

Mr. Kenneth NG Kwai Kai

Mr. Allen WAN Tze Wai

***Non-Executive Director:***

Dr. Francis CHOI Chee Ming, GBS, JP

*(Vice Chairman)*

***Independent Non-Executive Directors:***

Ms. Alice KAN Lai Kuen

Professor Japhet Sebastian LAW

Mr. NG Siu Chan

Mr. WONG Chi Keung

By Order of the Board

**LO YUK SUI**

Chairman

Hong Kong, 27th March, 2017