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Corporate Information

DIRECTORS

Executive Directors

Lo Yuk Sui

(Chairman and Chief Executive Officer)

Lo Po Man

(Vice Chairman and Managing Director)

Belinda Yeung Bik Yiu

(Chief Operating Officer)

Donald Fan Tung

Jimmy Lo Chun To

Kenneth Ng Kwai Kai

Allen Wan Tze Wai

Non-Executive Director

Francis Choi Chee Ming, GBS, JP

(Vice Chairman)

Independent Non-Executive Directors

Alice Kan Lai Kuen

Japhet Sebastian Law

Winnie Ng, JP

Wong Chi Keung

AUDIT COMMITTEE

Wong Chi Keung (Chairman)

Francis Choi Chee Ming, GBS, JP

Alice Kan Lai Kuen

Japhet Sebastian Law

Winnie Ng, JP

REMUNERATION COMMITTEE

Wong Chi Keung (Chairman)

Lo Yuk Sui

Alice Kan Lai Kuen

Winnie Ng, JP

NOMINATION COMMITTEE

Lo Yuk Sui (Chairman)

Alice Kan Lai Kuen

Winnie Ng, JP

Wong Chi Keung

SECRETARY

Eliza Lam Sau Fun

AUDITOR

Ernst & Young

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

The Bank of East Asia, Limited

Standard Chartered Bank (Hong Kong) Limited

Industrial and Commercial Bank of China (Asia) Limited

China Construction Bank Corporation, Hong Kong Branch

Oversea-Chinese Banking Corporation Limited

Bank of Communications Co., Ltd., Hong Kong Branch

Australia and New Zealand Banking Group Limited

United Overseas Bank Limited, Hong Kong Branch

Chong Hing Bank Limited

PRINCIPAL REGISTRAR

MUFG Fund Services (Bermuda) Limited

The Belvedere Building, 69 Pitts Bay Road

Pembroke HM08, Bermuda

BRANCH REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor, Hopewell Centre

183 Queen's Road East, Wan Chai

Hong Kong

REGISTERED OFFICE

The Belvedere Building, 69 Pitts Bay Road

Pembroke HM08, Bermuda

HEAD OFFICE AND PRINCIPAL

PLACE OF BUSINESS

11th Floor, 68 Yee Wo Street

Causeway Bay, Hong Kong

Tel: 2894 7888

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Website: www.regal.com.hk

Directors' Profile

Mr. Lo Yuk Sui, aged 74; *Chairman and Chief Executive Officer* — Chairman and Managing Director since 1989 when the Company was established in Bermuda as the holding company of the Group. Mr. Lo has been the managing director and the chairman of the predecessor listed company of the Group since 1984 and 1987 respectively. He was designated as the Chief Executive Officer of the Company in 2007. He is also an executive director, the chairman and the chief executive officer of Century City International Holdings Limited (“CCIHL”) (the ultimate listed holding company of the Company), Paliburg Holdings Limited (“PHL”) (the immediate listed holding company of the Company) and Cosmopolitan International Holdings Limited (“Cosmopolitan”) (the listed fellow subsidiary of the Company), and a non-executive director and the chairman of Regal Portfolio Management Limited (“RPML”), the manager of Regal Real Estate Investment Trust (the listed subsidiary of the Company). Mr. Lo is a qualified architect. In his capacity as the Chief Executive Officer, Mr. Lo oversees the overall policy and decision making of the Group. Mr. Lo is the father of Miss Lo Po Man and Mr. Jimmy Lo Chun To.

Miss Lo Po Man, aged 39; *Vice Chairman and Managing Director* — Joined the Group in 2000 and appointed to the Board in 2004. Miss Lo has been a Vice Chairman and the Managing Director of the Company since 2013. She is also an executive director and a vice chairman of CCIHL, an executive director of PHL, an executive director and a vice chairman of Cosmopolitan, and a non-executive director and the vice chairman of RPML. Miss Lo graduated from Duke University, North Carolina, the United States, with a Bachelor's Degree in Psychology. Miss Lo is an experienced executive in sales and marketing and corporate management. She oversees the sales and marketing function of the Group and also undertakes responsibilities in the business development of the Century City Group. Miss Lo is the daughter of Mr. Lo Yuk Sui and the sister of Mr. Jimmy Lo Chun To.

Dr. Choi Chee Ming (Alias: Francis), *GBS, JP*, aged 73; *Vice Chairman and Non-Executive Director* — Invited to the Board as Non-Executive Director and elected Vice Chairman in 2004. Dr. Francis Choi holds a Master's Degree in Business Administration from the Newport University in the United States of America. He also holds a Ph. D. in Business Management from Harbin Institute of Technology, the People's Republic of China (the “PRC”) and an Honorary Degree of Doctor of Business Administration from The Hong Kong Polytechnic University. Dr. Choi is the chairman of Early Light International (Holdings) Limited and has extensive business interests in the manufacturing industry and the property sector. He is the Honorary President of the Toys Manufacturers' Association of Hong Kong, Honorary President of the Hong Kong Young Industrialists Council and the Court Member of The Hong Kong Polytechnic University, a member of Sun Yat-sen University Advisory Board, the PRC and the Honorary Chairman of the Board of Trustees of Shaoguan University, the PRC. He is also the deputy chairman and non-executive director of Town Health International Medical Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Ms. Yeung Bik Yiu, Belinda, aged 60; *Executive Director and Chief Operating Officer* — Appointed to the Board in 2002 and designated as the Chief Operating Officer in 2007. Ms. Belinda Yeung joined the Group in 1987. Graduated from Barron Hilton School of Hotel Management, University of Houston, U.S.A., Ms. Yeung has devoted her career in the hospitality industry in U.S.A., Mainland China and Hong Kong – on both multi-unit corporate and single-unit hotel property management levels. As the Chief Operating Officer, Ms. Yeung is in charge of the operations of all Regal Hotels in Hong Kong and Mainland China. In addition to her hotel management responsibilities, she is also responsible for the human resources management of the Century City Group. Ms. Yeung is a member of Election Committee for the Hong Kong Chief Executive Election, Board Member of the Hong Kong Tourism Board, First Vice Chairman of the Federation of Hong Kong Hotel Owners, Fellow of The Hong Kong Polytechnic University and Honorary Fellow of the Vocational Training Council.

Directors' Profile (Cont'd)

Mr. Fan Tung, Donald, aged 62; *Executive Director* — Appointed to the Board in 2002. Mr. Donald Fan is a qualified architect. He has been with the Group since 1987 and is primarily in charge of the property investment and development businesses and the hotel project works of the Group. Mr. Fan is also an executive director of CCIHL, an executive director and the chief operating officer of PHL and a non-executive director of RPML. He is involved in the property development, architectural design and project management functions as well as overseeing the building construction business of the PHL Group.

Ms. Kan Lai Kuen, Alice, aged 64; *Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2004. Ms. Alice Kan is also an independent non-executive director of Cosmopolitan. Ms. Kan is a shareholder and the managing director of Asia Investment Management Limited providing corporate advisory and investment management services. She is a licensed investment adviser under the Securities and Futures Ordinance of Hong Kong (the "SFO") and a responsible officer of Asia Investment Management Limited. She has over 20 years of experience in corporate finance and is well experienced in both the equity and debt markets. She held various senior positions in international and local banks and financial institutions. Ms. Kan is a fellow member of The Association of Chartered Certified Accountants, a fellow member of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. She is a fellow member of the Hong Kong Institute of Directors. Ms. Kan is also an independent non-executive director of China Engin International (Holdings) Limited, Mason Group Holdings Limited and Shimao Property Holdings Limited, all of which are companies listed on the Stock Exchange, and an independent director of AVIC International Maritime Holdings Limited, a company listed on the Catalist board of Singapore Exchange Securities Trading Limited.

Professor Japhet Sebastian Law, aged 67; *Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2012. Professor Law obtained his Ph.D. in Mechanical/Industrial Engineering from The University of Texas at Austin in 1976. He joined The Chinese University of Hong Kong in 1986 and was a professor in the Department of Decision Sciences and Managerial Economics and the director of the Aviation Policy and Research Center until his retirement since August 2012. He was also the associate dean and subsequently the dean of the Faculty of Business Administration of The Chinese University of Hong Kong from 1993 to 2002. Prior to returning to Hong Kong, Professor Law was the director of operations research at the Cullen College of Engineering and director of graduate studies in Industrial Engineering at the University of Houston, and he was also involved with the United States Space Program in his career with McDonnell Douglas and Ford Aerospace in the United States. Professor Law has acted as a consultant for various corporations in Hong Kong and overseas. He is active in public services, having served as a member of the Provisional Regional Council of the Government of the Hong Kong Special Administrative Region and various other government advisory committees, and he is also active in serving on the boards of for-profit, non-profit, public and charitable organisations in Hong Kong and overseas. Professor Law is currently an independent non-executive director of Beijing Capital International Airport Company Limited, Binhai Investment Company Limited, Global Digital Creations Holdings Limited, Shougang Fushan Resources Group Limited, Tianjin Binhai Teda Logistics (Group) Corporation Limited and Tianjin Port Development Holdings Limited, all of which are companies listed on the Stock Exchange. Professor Law has also served on various committees and boards of international organisations, including The Association to Advance Collegiate Schools of Business, Graduate Management Admission Council and Oxfam International.

Mr. Lo Chun To (Alias: Jimmy), aged 45; *Executive Director* — Appointed to the Board in 1999. Mr. Jimmy Lo is also an executive director and a vice chairman of CCIHL, an executive director, the vice chairman and the managing director of PHL, an executive director and a vice chairman and the managing director of Cosmopolitan, and a non-executive director of RPML. Mr. Lo graduated from Cornell University, New York, the United States, with a Degree in Architecture. Mr. Lo joined the Century City Group in 1998. He is primarily involved in overseeing the Cosmopolitan group's property projects in the PRC and, in addition, undertakes responsibilities in the business development of the Century City Group. Mr. Lo is the son of Mr. Lo Yuk Sui and the brother of Miss Lo Po Man.

Mr. Ng Kwai Kai (Alias: Kenneth), aged 64; Executive Director — Joined the Group in 1985 and appointed to the Board in 1998. Mr. Kenneth Ng is also an executive director and the chief operating officer of CCIHL, an executive director of PHL and Cosmopolitan, and a non-executive director of RPML. Mr. Ng is a Chartered Secretary and is in charge of the corporate finance, company secretarial and administrative functions of the Century City Group.

Ms. Winnie Ng, JP, aged 55; Independent Non-Executive Director — Invited to the Board as Independent Non-Executive Director since January 2018. She is also an independent non-executive director of CCIHL and PHL since January 2018. Ms. Ng holds an MBA (Master of Business Administration) from University of Chicago and an MPA (Master of Public Administration) from Harvard University. Ms. Ng has received numerous awards and recognition. In 2017, she was appointed a Justice of the Peace. In 2016, she won Nobel Laureate Series: Asian Chinese Leadership Award and China Top Ten Outstanding Women Entrepreneurs. In previous years, she received recognitions as a Woman of Excellence in Hong Kong, one of 60 Meritorious Chinese Entrepreneurs with Achievement and National Contribution, Yazhou Zhoukan Young Chinese Entrepreneur Award, one of China's 100 Outstanding Women Entrepreneurs and was Mason Fellow of Harvard University. Active in public service, Ms. Ng is Chairman of Hospital Governing Committee of Prince of Wales Hospital, Director of Po Leung Kuk, Member of Town Planning Board, Advisor of Our Hong Kong Foundation, Council Member of The Better Hong Kong Foundation, and Court Member of The Hong Kong Polytechnic University. She was Member of Hong Kong Tourism Board and its Marketing & Business Development Committee Chairman, and Member of Hospital Authority and its Supporting Services Development Committee Chairman from 2010 to 2016. She was Member of Employees Retraining Board and its Course Vetting Committee Convenor, and Member of Vocational Training Council from 2011 to 2017. Ms. Ng is also a non-executive director of Transport International Holdings Limited, and she was the founder, deputy chairman and a non-executive director of RoadShow Holdings Limited (now known as Bison Finance Group Limited). Both companies are listed on the Stock Exchange.

Mr. Wan Tze Wai, Allen, aged 60; Executive Director — Appointed to the Board in 2010. Mr. Allen Wan has been with the Century City Group for over 25 years and is the Group Financial Controller of the Century City Group. Mr. Wan holds a Bachelor's Degree in Commerce from the University of New South Wales in Australia. He is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Wan has over 37 years of experience in finance and accounting field.

Mr. Wong Chi Keung, aged 64; Independent Non-Executive Director — Invited to the Board as Independent Non-Executive Director in 2004. He is also an independent non-executive director of CCIHL and PHL. Mr. Wong holds a Master's Degree in Business Administration from the University of Adelaide in Australia. Mr. Wong is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia and an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong is a responsible officer for asset management and advising on securities under the SFO. Mr. Wong was an executive director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited (now known as Yuexiu Property Company Limited), a company listed on the Stock Exchange, for over ten years. He is also an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, China Ting Group Holdings Limited, Fortunet e-Commerce Group Limited, Golden Eagle Retail Group Limited, Nickel Resources International Holdings Company Limited, TPV Technology Limited, Yuan Heng Gas Holdings Limited and Zhuguang Holdings Group Company Limited, all of which are companies listed on the Stock Exchange. Mr. Wong has over 36 years of experience in finance, accounting and management.

Chairman's Statement



Dear shareholders,

I am pleased to present the Annual Report of the Company for the year ended 31st December, 2018.

FINANCIAL RESULTS

For the year ended 31st December, 2018, the Group achieved consolidated profit attributable to shareholders of HK\$547.7 million, while the profit recorded in the preceding year was HK\$982.1 million.

As mentioned in the profit warning announcement by the Company dated 20th March, 2019, although the profit achieved for the year under review was expected to be substantially lower than that recorded in 2017, the business operations of the Group have performed satisfactorily and generated gross profit higher than that attained in the prior year. The decrease in the profit achieved for the year was principally due to the fact that in 2017, there was an one-off income derived from the reimbursement of rental expenses (net of hotel operating income) with regards to the leasing by the Group of the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel for their initial 3-year terms and, as affected by the downturn of the debt and capital markets, particularly in the second half of the year, the profit contribution derived from the Group's financial assets investment business during the year was significantly below the level attained in 2017.

Gross profit from business operations for the year amounted to HK\$1,213.7 million, approximately 4.0% over the HK\$1,167.0 million in 2017. Operating profit before depreciation, finance costs and tax for the year amounted to HK\$1,327.4 million, which was comparatively lower than the HK\$1,814.7 million attained in 2017 due to the reasons explained above. As the Group's hotel properties operating in Hong Kong are all owned and self-operated by subsidiaries of the Company, they are subject to depreciation charges to conform to the applicable accounting standards. Total depreciation charges on the Group's hotel portfolio in Hong Kong for the year amounted to HK\$479.9 million (2017 – HK\$463.2 million) which, although not affecting cash flow, have nevertheless impacted on the reported profits.

Having regard to the material difference prevailing between the carrying values of the Group's hotel portfolio in Hong Kong, which are subject to accumulated depreciation charges, and their fair values as at 31st December, 2018, an Adjusted Net Asset Statement is presented in the section headed "Management Discussion and Analysis" in this Annual Report, 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 valuations as at 31st December, 2018, the underlying adjusted net asset value of the Company would amount to HK\$23.27 per share.

BUSINESS OVERVIEW

HOTELS

MARKET OVERVIEW

According to a recent publication by the World Bank Group, global growth is projected to moderate from a downward revised 3% in 2018 to 2.9% in 2019 and to 2.8% in 2020-21. Growth in the United States will continue to be supported by fiscal stimulus in the near term, which will likely lead to larger and more persistent fiscal deficits. The growth in the Gross Domestic Product (GDP) in China reached 6.6% in 2018 but is projected to decelerate in 2019, slightly below previous projections as a result of weaker exports. Hong Kong sustained strong growth in the first half of the year under a stable economic environment. Following the escalation of the United States – China trade disputes and the successive interest rate hikes in the United States, Hong Kong's economic growth decelerated notably in the second half and particularly in the fourth quarter. GDP growth in real terms for 2018 as a whole was 3.0%, albeit still faster than the trend growth rate of 2.8% over the past decade, it was slower than the 3.8% growth attained in 2017.

For the whole year of 2018, visitor arrivals to Hong Kong increased by 11.4% year-on-year to a new record high of 65.1 million, led by an increase in the overall number of visitors from Mainland China. Total overnight visitors to Hong Kong amounted to 29.3 million, representing an increase of 4.9% year-on-year. Of the total 51.0 million visitors from Mainland China, 19.9 million were overnight visitors, which was an increase of 7.4% year-on-year. On the other hand, the number of overnight visitors from the traditional long haul markets and other short haul markets (excluding Mainland China) remained relatively steady. Based on a hotel survey published by the Hong Kong Tourism Board (HKTB), the average hotel occupancy rate for all the surveyed hotels in different categories in 2018 was 91.0%, an increase of 2.0 percentage points from 2017, while the industry-wide average room rate recorded a growth of 6.8%, resulting in a year-on-year increase of 9.2% in Revenue per Available Room (RevPAR).

HOTEL OWNERSHIP

The Group is developing through a wholly owned subsidiary a second hotel at the Hong Kong International Airport, proposed to be named as Regala Skycity Hotel, which will have over 1,200 guestrooms and suites. The construction works for this new hotel are progressing steadily and expected to be completed on schedule in late 2020.

The Group also owns a 186-room hotel in Barcelona, Spain, formerly known as the La Mola Hotel & Conference Centre and self-operated by the Group. This hotel property has been leased to an independent third party since September 2017 and is yielding satisfactory rental income.

REGAL REAL ESTATE INVESTMENT TRUST

As at 31st December, 2018, the Group held 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, 2018, Regal REIT recorded consolidated profit before distributions to Unitholders of HK\$2,251.7 million, as compared to the profit of HK\$2,488.3 million for the financial year 2017. The consolidated profit recorded for 2018 included a fair value gain of HK\$1,789.1 million arising from the increase in the appraised values of Regal REIT's investment property portfolio, after offsetting the additional capital expenditures for the year, while for the financial year 2017, the corresponding fair value gain was HK\$2,044.2 million. If the effects of the fair value changes are excluded, the core profit before distributions to Unitholders for the year under review would amount to HK\$462.5 million, an increase of 4.1% as compared to HK\$444.1 million for the preceding year.

Apart from the five initial Regal Hotels under the "Regal" brand, Regal REIT is gradually building up a strong portfolio of iclub Hotels, a select-service hotel brand developed by the Group. Currently, there is a total of four iclub Hotels owned by Regal REIT and operating in Hong Kong. The first iclub Hotel was the iclub Wan Chai Hotel, which is self-operated by Regal REIT and managed by a subsidiary of the Group. This hotel has all along enjoyed high occupancy levels and an increasing focus is now being placed on yield enhancement. The year-round average occupancy rate in 2018 was 95.9%, slightly higher than the 95.3% in 2017, while the average room rate increased by 9.1% with RevPAR consequently improved by 9.8% year-on-year.

Regal REIT currently owns a total of nine operating hotels, commanding an aggregate of 4,909 guestrooms and suites and is one of the major hotel owners in Hong Kong. The present portfolio of properties comprises a balanced mix of full-service and select-service hotels, which are strategically positioned to cater to different market demands from a wide range of business and leisure customers.

Following the completion of the HK\$3,000.0 million 5-year bilateral term loan financing, secured by the Regal Kowloon Hotel, in March 2018, Regal REIT has further concluded two separate bilateral refinancing arrangements for the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel in October and November 2018, respectively. Through these refinancing arrangements, Regal REIT was able to achieve savings in interest expenses, which will help to reduce Regal REIT's future financing costs.

HOTEL OPERATIONS

Favour Link International Limited, a wholly owned subsidiary of the Company, is the lessee operating all the eight Regal Hotels and iclub Hotels under lease from Regal REIT.

The five initial Regal Hotels have maintained steady operating performances during the year. Their combined average occupancy rate in 2018 was 88.7%, as compared to 87.4% last year, while their combined average room rate increased by 7.4%, resulting in a year-on-year enhancement of 9.0% in RevPAR, fairly in line with the industry average. Total hotel revenue from the five initial Regal Hotels in 2018 amounted to HK\$2,037.4 million, as compared to HK\$1,967.0 million in 2017. The total net property income generated by these five hotels for the year amounted to HK\$875.7 million, which was 8.5% above the HK\$807.3 million in the preceding year. This represented an excess of HK\$124.7 million over the aggregate annual base rent of HK\$751.0 million for the year, 50% of which will be attributable to Regal REIT as variable rent under the market rental package. For the year 2019, the aggregate annual base rent was determined to be HK\$776.0 million, representing an increment of HK\$25.0 million over the aggregate base rent for 2018, with variable rent continuing to be based on 50% sharing of the excess of the aggregate net property income of the five initial Regal Hotels over the aggregate base rent.

The business model of iclub Hotels has proved to be successful and the iclub Hotels are increasingly favoured by hotel guests. During the year under review, the operating performances of the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel, which are operated by Favour Link under leases from Regal REIT, achieved considerable improvements. Their combined annual average occupancy rate was maintained at 92.5%, 0.9 percentage point above the level in 2017, while their combined average room rate enhanced by 10.4%, achieving a 11.4% improvement in RevPAR year-on-year. For the year 2018, these two hotels generated aggregate net property income of HK\$96.8 million, which was an increase of 19.6% above the HK\$80.9 million in the prior year. This represented an excess of HK\$12.4 million over the aggregate base rent of HK\$84.4 million for the year and 50% of such excess will be attributable to Regal REIT as variable rent. Similar to the five initial Regal Hotels, their rental packages are being determined annually by an independent professional property valuer. Under the market rental reviews concluded in September 2018, the base rent for 2019 for each of the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel has been determined to be HK\$46.0 million, reflecting an overall increment of HK\$7.6 million over their aggregate annual base rent for 2018, with variable rent continuing to be based on 50% sharing of the excess of the net property income over the base rent of each hotel. The initial fixed terms of the leases for these two hotels will expire on 31st December, 2019 but Regal REIT has the option to extend the leases for another 5 years.

The iclub Ma Tau Wai Hotel is the fourth iclub Hotel owned by Regal REIT, which it acquired from P&R Holdings Limited, a 50/50 joint venture owned by Paliburg Holdings Limited, the immediate holding company of the Company, and the Group, in September 2017. This hotel has also been leased to the Group for a term of five years with escalating fixed rentals at an average yield of 4.5% per annum. Under the arrangement agreed with P&R Holdings, any deficit of the rental expenses below the net property income from the business operation of the hotel will be reimbursed by P&R Holdings to the Group annually during the initial 5-year term of the lease. Although still in start-up mode, the iclub Ma Tau Wai Hotel has managed to attain satisfactory performance during the year, with an average occupancy rate maintained at 84.4%.

HOTEL MANAGEMENT

Regal Hotels International Limited, the wholly owned management arm of the Group, is the hotel manager managing all the five initial Regal Hotels and five iclub Hotels now operating in Hong Kong. The most recent addition to the portfolio is the iclub Mong Kok Hotel, a 288-room hotel developed and owned by P&R Holdings, which was soft opened earlier this month. Two other new hotels in Hong Kong, also to be managed by Regal Hotels International, are coming on stream. They are, respectively, the iclub Sheung Wan II Hotel to be completed in the second half of this year and the Regala Skycity Hotel in late 2020.

In Mainland China, the Group is managing a total of eight operating Regal Hotels, including four in Shanghai, two in Dezhou, one in Xi'an and one in Foshan. The Group is also managing one hotel in Zhengzhou which is operating under the iclub by Regal brand. Three other hotels also to be managed by the Group are under development, which are separately located in Chengdu, Jiangmen and Kunshan.

The hotel manager will continue to step up its efforts to promote the "Regal", "iclub" and the latest "Regala" brand names and to strengthen the Group's marketing and reservation networks on the internet and other platforms.

PROPERTIES

The property market in Hong Kong was relatively buoyant in the first half of the year under review, with land prices at the government land tenders recording new historical highs. Following the successive interest rate hikes in the United States, the escalation of the trade disputes between the United States and China and the introduction by the government of Hong Kong of a series of additional controlling measures, including the proposed vacancy tax on first-hand private residential properties, the property market in Hong Kong began to cool down in the second half of the year. Property prices in Hong Kong generally adjusted downwards in the fourth quarter and the volume of property transactions in the second half as a whole contracted notably from the levels in the first half of the year.

Since the establishment of P&R Holdings in 2011, the property development businesses of the Group have principally been conducted through this joint venture. P&R Holdings is currently undertaking a total of 8 projects in Hong Kong, including the large scale luxury residential development at Mount Regalia in Kau To, Sha Tin. This development has a total gross floor area of about 349,500 square feet, comprising 24 garden houses and 136 apartment units together with car parks and club house facilities. The certificate of compliance for this development has recently been issued in February 2019 and the marketing and sale programme will be formally launched shortly.

As mentioned before, the Group has also undertaken on its own property development businesses as and when the circumstances were considered to be appropriate. These property projects include certain existing properties situated at Queen's Road West, Hong Kong which are intended for a commercial/residential development and, more recently, a rehabilitation and renovation project for a historic building in Lisbon, Portugal intended for sale. Separately, the Group continues to retain a total of 14 garden houses in Regalia Bay, Stanley Bay. While certain of these garden houses have been leased out for rentals, some of them may be sold if the prices offered are satisfactory.

Further detailed information on the Group's development projects and properties, as well as those undertaken by P&R Holdings and its listed subsidiary, Cosmopolitan International Holdings Limited, are contained in the section headed "Management Discussion and Analysis" in this Annual Report.

AIRCRAFT OWNERSHIP AND LEASING

In April, 2018, the Group completed the process for the acquisition of two mid-life Airbus A320-232 passenger aircraft, which are under operating leases to a major international airline operator based in Europe. Later in the year, the Group disposed of one Airbus A321-211 and four Embraer ERJ145 aircraft to three independent buyers. In December 2018, the Group further completed the disposals of six Embraer ERJ135/145 aircraft upon the expiries of the relevant finance leases to the then lessee. Subsequent to the year-end date, in February 2019, the Group further completed the disposal of the one remaining Embraer ERJ135 aircraft to another independent buyer. These aircraft disposed of have on the whole generated satisfactory profits to the Group.

At present, the Group owns a fleet of 3 aircraft which are all on operating leases. The Group still holds a reasonably positive view in the long-term growth of the aviation industry and will continue to review new acquisitions if they could offer attractive returns.

OUTLOOK

Given the overhang of the trade disputes between the United States and China, the geopolitical tensions in different regions, the volatilities in financial markets as well as the undecided position on Brexit, there is still a high level of uncertainties in the global economic outlook.

However, as far as tourism in Hong Kong is concerned, the prospects can, nevertheless, be viewed with some optimism. The Hong Kong Government is committed to supporting the development of 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 HKTB is stepping up on the promotion of a variety of events and festival activities from time to time, in order to develop a diversified portfolio of visitor source markets for Hong Kong. The commissioning of the two mega infrastructure projects, namely, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) and the Hong Kong-Zhuhai-Macao Bridge in September and October 2018, respectively, will greatly strengthen the transportation links for overseas and Mainland visitors to visit and depart from Hong Kong. Moreover, with the implementation of the Belt-and-Road Initiative, Guangdong-Hong Kong-Macao Bay Area (Greater Bay Area), RMB internationalisation, further interconnection between the capital markets of the Mainland and Hong Kong, Hong Kong's position as an international trade and logistics hub for goods and services will also be further enhanced.

For the first two months of 2019, the performance of the tourist market in Hong Kong remained strong. The Group firmly believes in the prospects of the tourism and hotel industry in Hong Kong and in Hong Kong's ability to maintain its position as a preferred tourist destination, for both business and leisure travelers alike. Being the only listed hospitality REIT with market concentration in Hong Kong, the REIT Manager is committed to maintaining Regal REIT's leading position as one of the pre-eminent hotel owners in Hong Kong and will continue to closely monitor the performance of each of its existing properties and to evaluate new investment opportunities that are yield accretive and beneficial for its continuing growth.

Having regard to the shortage in the supply of development lands and the high level of pent-up demands for different types of properties, the core fundamentals of the property market in Hong Kong remain strong and resilient. In the initial few months of 2019, market sentiment towards the property sector in Hong Kong turned positive, with prices of residential properties gradually reverting to a rising trend. The Mount Regalia luxury residential project is the most significant development project so far undertaken by P&R Holdings. Upon the progressive disposals of the garden houses and apartment units in the project, substantial contributions of cash flow and development profits will be attributable to the Group.

Chairman's Statement (Cont'd)

The Group is maintaining a solid financial position, supported by a strong recurring income stream from its hotel operations and property business. The Group will continue to explore new business and investment opportunities, with an aim to sustaining its future growth.

DIRECTORS AND STAFF

Finally, I would also like to thank my fellow colleagues on the Board for their contribution over the year and to all management and staff members for their persistent efforts.

LO YUK SUI

Chairman

Hong Kong
26th March, 2019

REGAL AIRPORT HOTEL

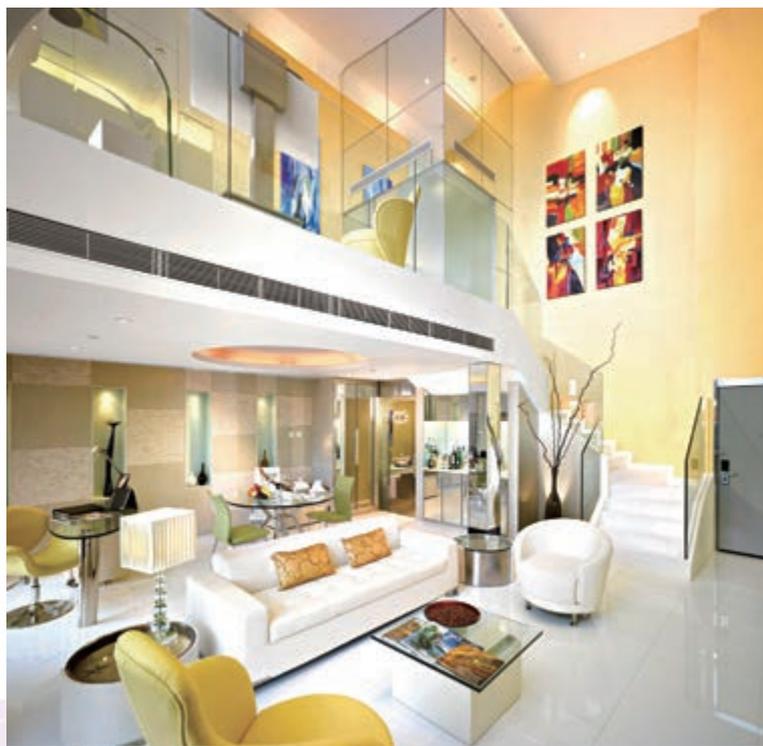
CHEK LAP KOK • HONG KONG



Regala Café & Dessert Bar



Grand Ballroom



Duplex Suite

REGAL HONGKONG HOTEL

CAUSEWAY BAY • HONG KONG



Executive Club Room



Rooftop Swimming Pool



Alto 88



REGAL KOWLOON HOTEL

TSIMSHATSUI • HONG KONG



Deluxe Suite



Mezzo



Executive Club Lounge

REGAL ORIENTAL HOTEL

KOWLOON CITY • HONG KONG



Deluxe Suite



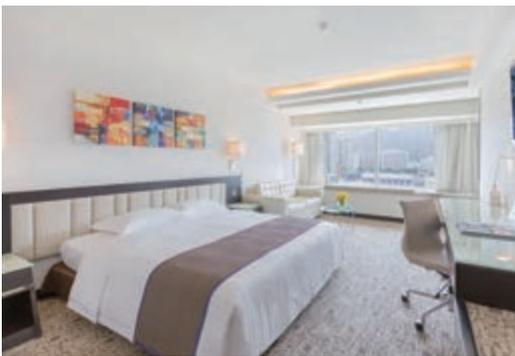
Meeting Room



Regal Patisserie

REGAL RIVERSIDE HOTEL

SHA TIN • HONG KONG



Deluxe Room



Taiwan Delight



The Forum

iclub WAN CHAI HOTEL

WAN CHAI • HONG KONG



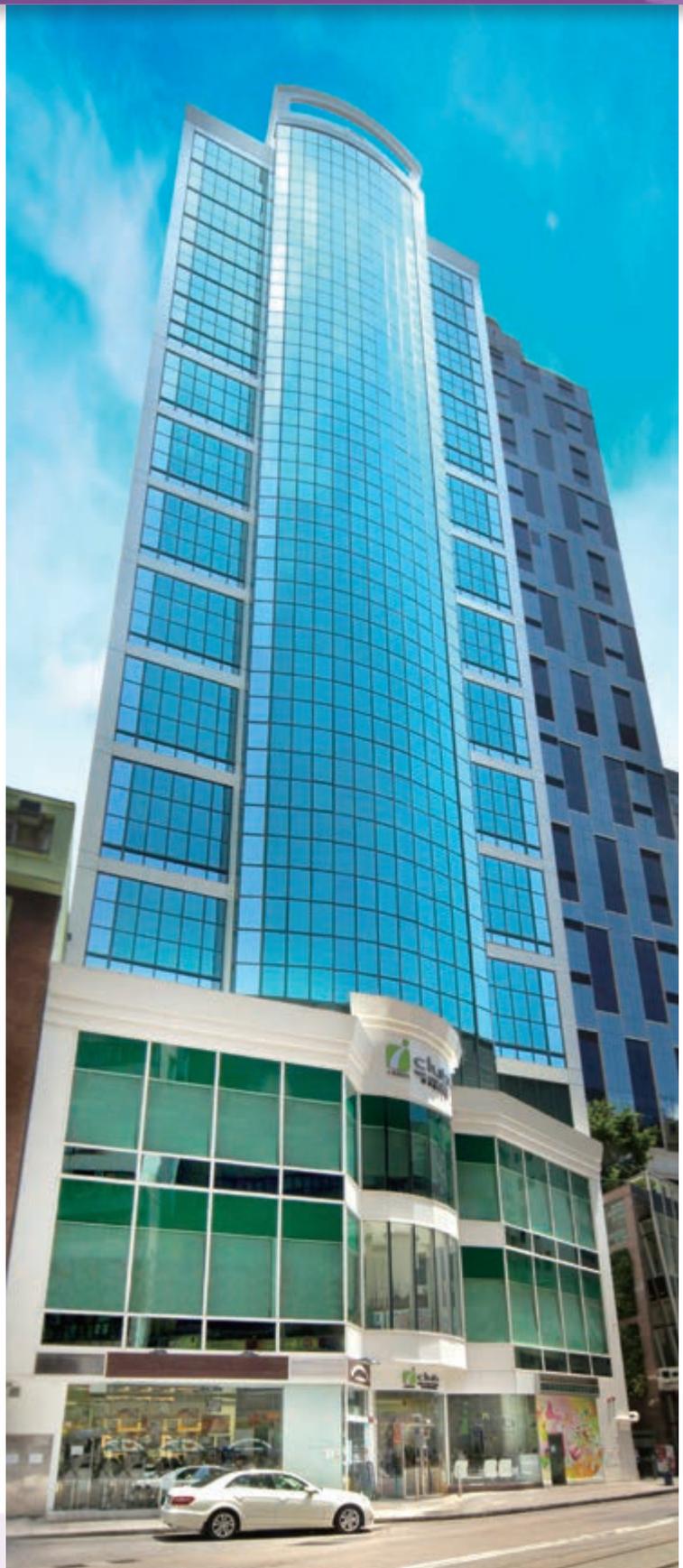
iSuite Premier



iSelect Premier



iLounge



iclub SHEUNG WAN HOTEL

SHEUNG WAN • HONG KONG



iSuite



iResidence



iLounge

iclub FORTRESS HILL HOTEL

FORTRESS HILL • HONG KONG



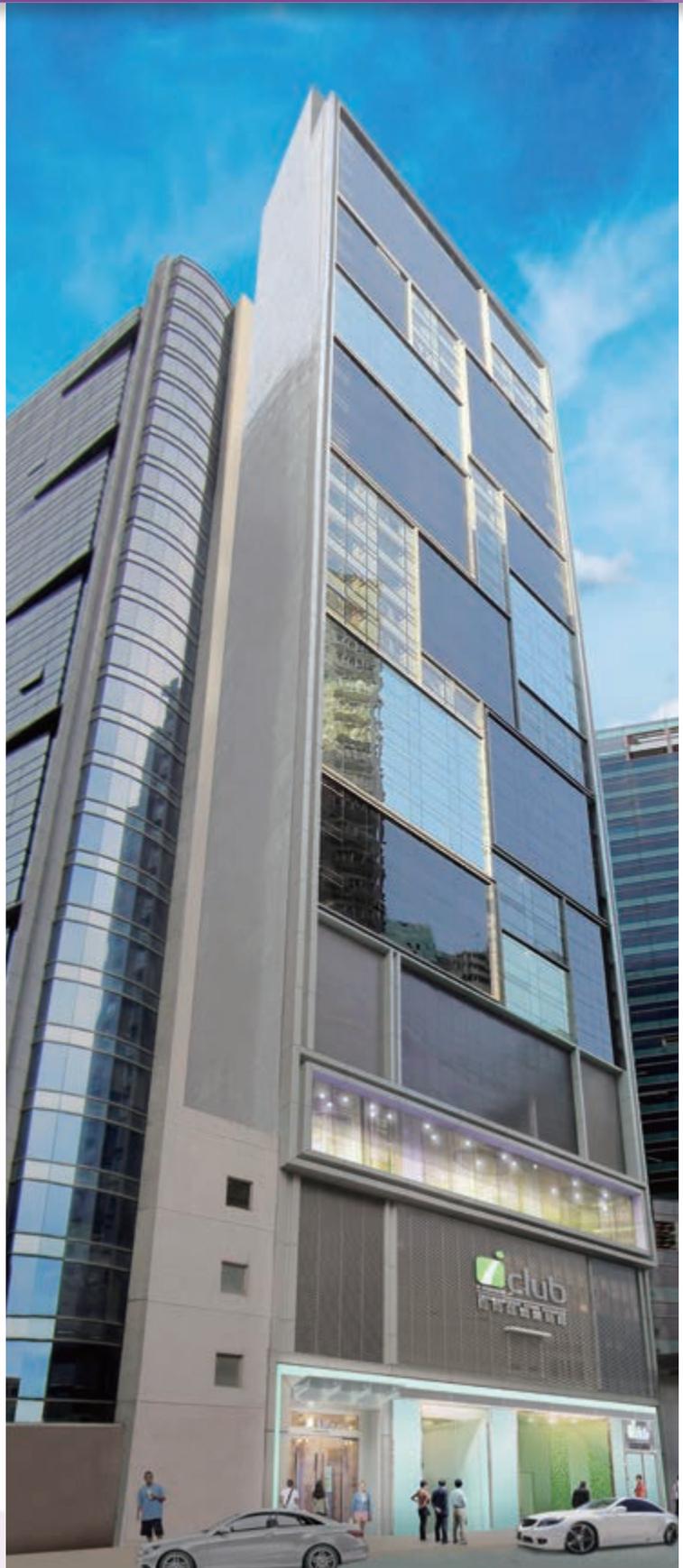
iPlus



Hotel Lobby



iLounge



iclub MA TAU WAI HOTEL

MA TAU WAI • HONG KONG



Connecting Room



Hotel Lobby



iSelect Premier

CAMPUS LA MOLA

BARCELONA • SPAIN



Conference Room



Gym Room



Deluxe Room with Balcony

REGAL INTERNATIONAL EAST ASIA HOTEL

SHANGHAI • MAINLAND CHINA



Executive Club Room



California Cafe



Jasmine Room

REGAL SHANGHAI EAST ASIA HOTEL

SHANGHAI • MAINLAND CHINA



Executive Club Room



Swimming Pool



Tiffany Lounge

REGAL JINFENG HOTEL

SHANGHAI • MAINLAND CHINA



iLounge



Presidential Suite



Regal Ballroom



REGAL PLAZA HOTEL & RESIDENCE

SHANGHAI • MAINLAND CHINA



Deluxe Suite



Meeting Room



iLounge

REGAL KANGBO HOTEL

DEZHOU • MAINLAND CHINA



Forum



Executive Suite



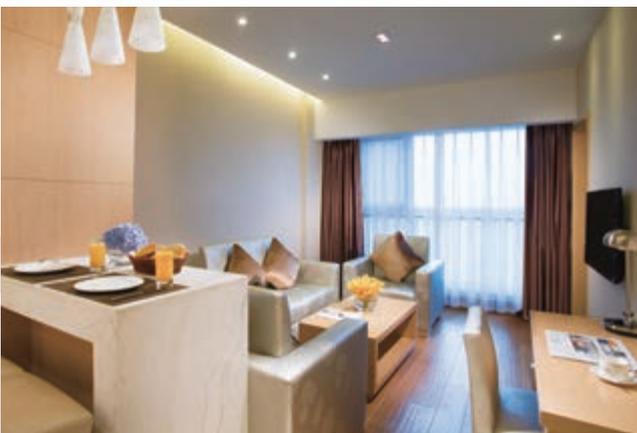
Ballroom

REGAL KANGBO HOTEL & RESIDENCE

DEZHOU • MAINLAND CHINA



iLounge



Deluxe Suite



Superior Room

REGAL FINANCIAL CENTER HOTEL

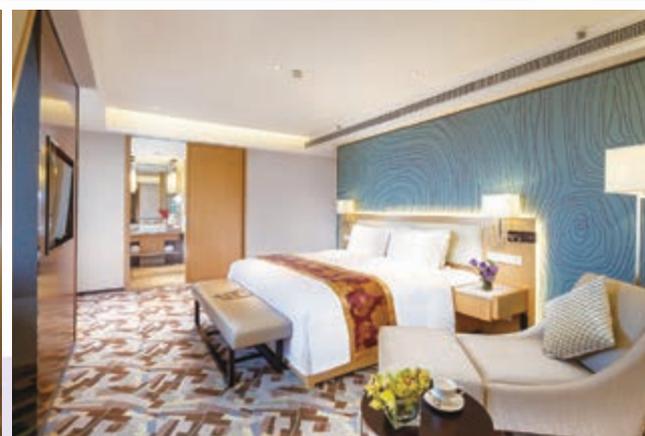
FOSHAN • MAINLAND CHINA



Regal Court



The Forum



Deluxe Suite

REGAL AIRPORT HOTEL, XI'AN

XI'AN • MAINLAND CHINA



Noodle Doodle



Swimming Pool



Superior Room

iclub YUHONG HOTEL

ZHENGZHOU • MAINLAND CHINA



Hotel Lobby



iSelect



iCafe

COMING ADDITIONS



Regala Skycity Hotel (2020) - Hong Kong International Airport, Hong Kong (*)



Model of Regala Skycity Hotel



Regala Skycity Hotel – superstructure works in progress

* Artist impression

COMING ADDITIONS



Main Entrance at Regala Skycity Hotel (*)



Restaurant at Regala Skycity Hotel (*)



Premier Floor Bar & Lounge at Regala Skycity Hotel (*)

* Artist impression

COMING ADDITIONS



Regal Riverfront Hotel (2020) – Jiangmen, Mainland China (*)



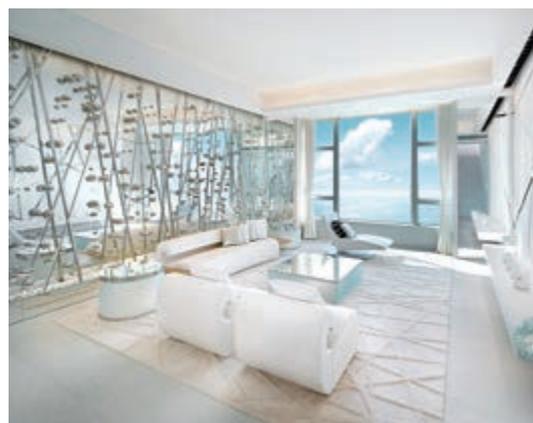
Regal Huaqiao Hotel (#) – Kunshan, Mainland China (*)

* Artist impression

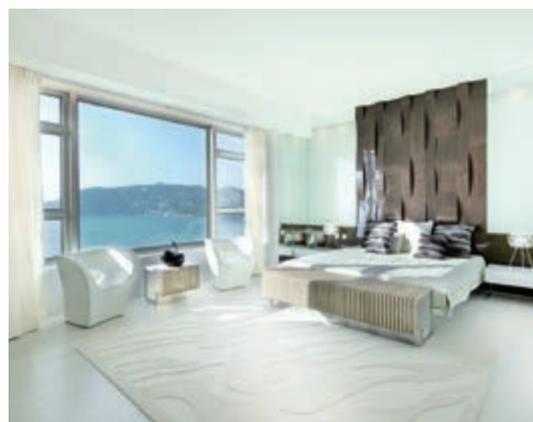
Year of opening pending confirmation

REGALIA BAY

STANLEY • HONG KONG



Living Room in a house



Master Bedroom in a house

JOINT VENTURE DEVELOPMENTS

RESIDENTIAL / COMMERCIAL DEVELOPMENTS HONG KONG



Casa Regalia, the garden houses in the residential development at Nos. 65-89 Tan Kwai Tsuen Road, Yuen Long, New Territories



A luxurious garden house at Casa Regalia



The Ascent, a commercial/residential development at No. 83 Shun Ning Road, Sham Shui Po, Kowloon – completed in July 2018

RESIDENTIAL / COMMERCIAL DEVELOPMENTS

HONG KONG



Mount Regalia, a luxurious residential development at 23 Lai Ping Road, Kau To, Sha Tin, New Territories



Living room of a residential unit at Mount Regalia



Living room of a garden house at Mount Regalia

RESIDENTIAL / COMMERCIAL DEVELOPMENTS

HONG KONG



We Go MALL, a shopping mall at No. 16 Po Tai Street, Ma On Shan, Sha Tin, New Territories



Racing Hero at We Go MALL



We Go MALL – garden roof

RESIDENTIAL / COMMERCIAL DEVELOPMENTS

HONG KONG



WhizBo Kids Café at We Go MALL



Metro Café at We Go MALL



Metro Asia at We Go MALL

HOTEL DEVELOPMENTS



iclub Mong Kok Hotel at 2 Anchor Street, Tai Kok Tsui, Kowloon



Nos. 5-7 Bonham Strand West and Nos. 169-171 Wing Lok Street, Sheung Wan intended to be named as "iclub Sheung Wan II Hotel" (*)



Lobby at iclub Mong Kok Hotel



iBusiness Premier at iclub Mong Kok Hotel



iclub Sheung Wan II Hotel
– superstructure works substantially finished

* Artist impression

COMPOSITE DEVELOPMENT

CHENGDU • MAINLAND CHINA



Regal Cosmopolitan City, a composite hotel/commercial/office/serviced apartment/residential development in Xindu District, Chengdu, Sichuan (*)



Residential towers of Casa Regalia (Phase 2), Regal Cosmopolitan City (*)



Commercial/office towers of Regal Cosmopolitan City (*)
– updated scheme design approved

* Artist impression

COMPOSITE DEVELOPMENT

TIANJIN • MAINLAND CHINA



Regal Renaissance, a composite commercial/office/residential development in a prime location of Hedong District, Tianjin (*)



Residential towers and commercial complex of Regal Renaissance - completed



Cat Sky Walk, a shopping street in Regal Renaissance – Grand Opening in December 2018

* Artist impression

OTHER INVESTMENTS

AIRCRAFT OWNERSHIP AND LEASING



Airbus A319



Airbus A320-232



Management Discussion and Analysis

BUSINESS REVIEW

The Group's significant investments and principal business activities mainly comprise hotel ownership business undertaken through Regal Real Estate Investment Trust ("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 Limited ("P&R Holdings"), aircraft ownership and leasing 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 the general market conditions and the potential impact on their operating performances and future prospects are contained in the sections headed "Financial Results", "Business Overview" and "Outlook", respectively, in the preceding Chairman's Statement as well as in this section.

The Group has no immediate plans for material investments or capital assets, other than those as disclosed in the sections headed "Business Overview" and "Outlook" in the preceding Chairman's Statement and in this section.

A brief review on the development projects and properties of the Group, which (except for the property project in Portugal) are all wholly owned by the Group, as well as those undertaken by P&R Holdings and its listed subsidiary, Cosmopolitan International Holdings Limited ("Cosmopolitan"), and on the Group's financial assets and other investment is set out below.

Hong Kong

New hotel project intended to be named as "Regala Skycity Hotel" at the Hong Kong International Airport

In February 2017, a wholly owned subsidiary of the Company was awarded by the Airport Authority in Hong Kong the development right for a new hotel project at the Hong Kong International Airport.

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 situated at a site 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 also contains large scale retail and offices, dining and entertainment facilities.

The new project is planned for the development of a 13-storey (including one basement floor) hotel with 1,208 guestrooms and suites as well as extensive banquet, meeting and food and beverage facilities. The hotel will be operated as a full service hotel targeting at commercial, airline related, leisure and meeting businesses. The superstructure works have commenced in September 2018. The new hotel is anticipated to be completed in late 2020.

Nos. 150-162 Queen's Road West, Hong Kong

The Group has successfully acquired 100% ownership interests in the subject properties through private treaty transactions. The project has a combined site area of 682 square metres (7,342 square feet) and is planned for a commercial/residential development with gross floor area of about 5,842 square metres (62,883 square feet). The general building plans have been approved and the demolition works of the existing buildings will soon commence. The project is expected to be completed by 2021.

Regalia Bay, 88 Wong Ma Kok Road, Stanley, Hong Kong

A total of 14 garden houses in Regalia Bay with total gross area of about 6,320 square metres (68,000 square feet) are still being retained, 8 of which are held as investment properties, 3 as held for sale and 3 as property, plant and equipment. The Group will continue to dispose of some of these houses if the price offered is considered satisfactory.

Overseas

Campus La Mola, Barcelona, Spain

This hotel property was acquired by the Group in 2014. It has a total of 186 rooms and was formerly operated by the Group under the name of La Mola Hotel & Conference Centre. The hotel property has subsequently been leased to an independent third party under a lease agreement that commenced in September 2017, which is yielding satisfactory rentals.

Fabrik, Rua Dos Fanqueiros 156, Lisbon, Portugal

The Group has a 90% interest in this property project, which is a rehabilitation and renovation project for a historic building located in an area of vast historical heritage. The building has gross development area of about 1,836 square metres (19,768 square feet) comprising shops and apartments. The design for the renovation programme has been approved by the local government authorities and the renovation works are expected to commence in the second quarter of 2019. The property project is intended for sale.

JOINT VENTURE – P&R HOLDINGS LIMITED

P&R Holdings is a 50:50 owned joint venture established with Paliburg Holdings Limited (“PHL”), with capital contributions provided by the Company and PHL on a pro-rata basis in accordance with their respective shareholdings in P&R Holdings. P&R Holdings’ business scope encompasses 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 in Hong Kong is set out below:

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, all of the other ongoing development projects and properties are wholly owned by P&R Holdings group.

Management Discussion and Analysis (Cont'd)

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.

With the exception of 1 unit, all the other 133 units in the apartment block, named Domus, had been sold in 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, a total of 25 houses have been sold or contracted to be sold. The 11 remaining houses will continue to be disposed of on a gradual basis but some of them may in the meantime be retained for rental income.

We Go MALL at No.16 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 has been developed into a shopping mall with 5 storeys above ground level and 1 storey of basement floor. The occupation permit for the project was issued in September 2017. Since its soft opening in May 2018, the "We Go MALL" has been well received and most of its lettable space has been leased out or occupied. This shopping mall development is yielding satisfactory rentals and will be retained for investment income.

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 has been 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 car parks. The occupation permit for the project was issued in March 2018 and the certificate of compliance was obtained in July 2018. The presale of the residential units was launched in July 2016 and, up to date, only one residential unit remains unsold. Most of the units sold have been handed over to the respective purchasers on completion of the sale contracts and the profits derived therefrom accounted for in the year under review. The commercial units are planned to be tendered for sale in the second quarter of 2019.

Mount Regalia, 23 Lai Ping Road, Kau To, Sha Tin, New Territories

The project has a site area of 17,476 square metres (188,100 square feet). It has been developed into a luxury residential complex comprising 7 mid-rise apartment blocks with 136 units, 24 detached garden houses and 197 car parking spaces, with aggregate gross floor area of approximately 32,474 square metres (349,547 square feet). The occupation permit was issued in September 2018 and the certificate of compliance in February 2019. The marketing and sale programme will commence shortly and is planned to be undertaken in stages.

iclub Mong Kok Hotel at 2 Anchor 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. The project has a site area of 725.5 square metres (7,809 square feet), with 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). The project has been developed into a hotel of 20 storeys, comprising 288 guestrooms with ancillary facilities. The occupation permit for the project was issued in October 2018 and the hotel soft opened for business after the issue of the hotel licence earlier in March 2019.

Nos.5-7 Bonham Strand West and Nos.169-171 Wing Lok Street, Sheung Wan, Hong Kong, intended to be named as "iclub Sheung Wan II Hotel"

The project has an aggregate site area of approximately 345 square metres (3,710 square feet) and is being developed into a hotel with 98 guestrooms and suites (totally 162 room bays), 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 superstructure works have substantially been finished and the project is scheduled for completion in the second half of 2019.

Nos.291-293 and 301-303 of Castle Peak Road, Cheung Sha Wan, Kowloon

The properties comprise interests in 70% undivided shares of Nos.291-293 Castle Peak Road and 100% ownership interests of Nos.301-303 Castle Peak Road, which were acquired through private treaty in October 2018. The properties have a total site area of 488 square metres (5,260 square feet) and are intended for a commercial/residential development having an aggregate gross floor area of approximately 4,395 square metres (47,304 square feet).

Nos.9-19 Kam Wa Street, Shau Kei Wan, Hong Kong

The properties comprise 100% ownership interests of Nos.9-15 Kam Wa Street and interests in over 80% undivided shares of Nos.17-19 Kam Wa Street, which were recently acquired through private treaty in March 2019. The properties have a total site area of 518 square metres (5,580 square feet) and are intended for a commercial/residential development having an aggregate gross floor area of approximately 4,665 square metres (50,220 square feet).

COSMOPOLITAN INTERNATIONAL HOLDINGS LIMITED

Cosmopolitan is a listed subsidiary of P&R Holdings. Further information relating to the property projects of the Cosmopolitan group in the People's Republic of China ("PRC"), all of which are wholly owned, 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 residential, hotel, commercial and office components, with an overall total gross floor area of approximately 495,000 square metres (5,330,000 square feet).

While the nine residential towers in the first and second stages of the Chengdu project have been completed, the construction works of the third stage of the development consisting of ten residential towers of total 1,555 units, about 4,100 square metres (44,100 square feet) of commercial accommodations and 1,941 car parking spaces are in steady progress. Presale of two residential towers consisting of 314 units in the third stage of the development has recently been launched.

Management Discussion and Analysis (Cont'd)

The business remodeling works of the hotel have been completed and corresponding interior design works are progressing. The mechanical and electrical installation works on site are also in steady progress. The interior fitting-out works are scheduled to commence in mid 2019 and the hotel is scheduled to open in phases from the first half of 2020.

The updated scheme design of the remaining commercial components within the development, comprising a six-storey commercial complex of about 48,000 square metres (516,700 square feet) and five towers of office accommodations of about 90,500 square metres (974,100 square feet) have been approved by the local authority and the detailed design of work has also commenced. The construction works are planned to be started in late 2019 and the associated presale programme will be launched in late 2020.

Tianjin Project – Regal Renaissance

Located in the Hedong District in Tianjin, this project is a mixed use development comprising residential, commercial and office components with total gross floor area of about 145,000 square metres (1,561,000 square feet).

The construction works of the four residential towers, the commercial complex and the associated car parking spaces have been completed. Most of the residential units and car parking spaces sold have been handed over to the individual purchasers in the first half of 2018. The sale of the commercial complex, comprising mainly shops of about 19,000 square metres (205,000 square feet), is continuing steadily and contracts for sale have been secured for some of the shop units. Certain parts of the commercial complex have in the meantime been leased out for rental income. Grand opening of the commercial complex was launched in December 2018.

As the negotiation with the local government over the configuration design of the office space was in smooth progress, the superstructure works of the two office towers are expected to be resumed in the second quarter of 2019. The presale programme of the office accommodations is planned to be launched in the fourth quarter of 2019.

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 would be available for real estate development after the requisite inspection, land grant listing and tender procedures are completed.

The Cosmopolitan group continues to maintain the re-forested area and communicate with the relevant government authority to initiate appropriate measures to settle the disputes over certain portions of the land in the project site that have been 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.

FINANCIAL ASSETS AND OTHER INVESTMENTS

The Group maintains a sizable investment portfolio comprising listed securities, investment funds, bonds as well as treasury and yield enhancement products. Due to the relatively volatile conditions in the financial markets and particularly, the downturn of the debt and capital markets in the second half of the year, the overall profit achieved in the financial assets investments segment for the year was significantly below the level attained last year.

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, the iclub Fortress Hill Hotel and the iclub Ma Tau Wai 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, the iclub Fortress Hill Hotel and the iclub Ma Tau Wai 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 market value as at 31st December, 2018, the unaudited adjusted net asset value of the ordinary shares of the Company would be HK\$23.27 per share, as follows:

	As at 31st December, 2018	
	HK\$'million	HK\$ per ordinary share
Book net assets attributable to equity holders of the parent	12,864.1	14.31
Adjustment to restate the Group's hotel property portfolio in Hong Kong at its market value and add back the relevant deferred tax liabilities	<u>8,051.2</u>	<u>8.96</u>
Unaudited adjusted net assets attributable to equity holders of the parent	<u><u>20,915.3</u></u>	<u><u>23.27</u></u>

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 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.

Management Discussion and Analysis (Cont'd)

Cash Flows

During the year under review, there were net cash flows generated from operating activities of HK\$217.6 million (2017 – net cash flow used in operating activities of HK\$319.1 million). Net interest payment for the year amounted to HK\$183.3 million (2017 – HK\$194.3 million).

Borrowings and Gearing

As at 31st December, 2018, the Group had cash and bank balances and deposits of HK\$1,874.8 million (2017 – HK\$3,457.9 million) and the Group's borrowings net of cash and bank balances and deposits amounted to HK\$12,951.7 million (2017 – HK\$10,925.2 million).

As at 31st December, 2018, the gearing ratio of the Group was 40.8% (2017 – 35.0%), representing the Group's borrowings net of cash and bank balances and deposits of HK\$12,951.7 million (2017 – HK\$10,925.2 million) as compared to the total assets of the Group of HK\$31,737.9 million (2017 – HK\$31,248.5 million).

On the basis of the adjusted total assets as at 31st December, 2018 of HK\$42,191.4 million (2017 – HK\$41,034.7 million) with the Group's hotel portfolio in Hong Kong restated at its market value on the basis presented above, the gearing ratio would be 30.7% (2017 – 26.6%).

Details of the maturity profile of the borrowings of the Group as of 31st December, 2018 are shown in notes 30 and 31 to the financial statements.

Pledge of Assets

As at 31st December, 2018, the Group's properties held for sale and certain of the Group's property, plant and equipment, investment properties, financial assets at fair value through profit or loss, financial assets at amortised cost, time deposits and bank balances in the total amount of HK\$21,134.5 million were pledged to secure banking facilities granted to the Group as well as bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT.

As at 31st December, 2017, 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\$17,839.9 million were pledged to secure banking facilities granted to the Group as well as bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT.

Capital Commitments

Details of the capital commitments of the Group as at 31st December, 2018 are shown in note 43 to the financial statements.

Contingent Liabilities

As at 31st December, 2018, 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\$2,537.8 million (2017 – HK\$2,446.8 million), of which HK\$2,334.1 million (2017 – HK\$1,841.0 million) was utilised.

In addition, guarantee has been given to a bank by the Group for a performance bond issued by the bank in relation to a property development contract undertaken by the Group amounting to HK\$15.0 million (2017 – HK\$15.0 million).

Details of the contingent liabilities of the Group are also shown in note 41 to the financial statements.

Share Capital

During the year under review, there was no change in the share capital of the Company.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES OR ASSOCIATES

During the year under review, there were no material acquisitions or disposals of subsidiaries or associates of the Company.

STAFF AND REMUNERATION POLICY

The Group employs approximately 1,990 staff in Hong Kong. The Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Group's operations to be compatible with market norm.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Staff benefits plans maintained by the Group include a mandatory provident fund scheme as well as medical and life insurance.

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31st December, 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activities of the subsidiaries are hotel ownership business undertaken through Regal Real Estate Investment Trust ("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 Limited ("P&R Holdings"), aircraft ownership and leasing business, and other investments including financial assets investments. There have been no significant changes in the above activities during the year.

The turnover and contribution to trading results by each principal activity are set out in note 4 to the financial statements.

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2018 and the Group's financial position at that date are set out in the financial statements on pages 77 to 186.

BUSINESS REVIEW

Further discussion and review on the business activities of the Group as required by Schedule 5 to the Companies Ordinance (Cap. 622) of Hong Kong, including a description of the principal risks and uncertainties facing the Group, material events that have occurred since the year end date and an indication of likely future development in the Group's business are contained in the preceding Chairman's Statement and Management Discussion and Analysis set out on pages 6 to 12 and pages 44 to 51, respectively, of this Annual Report. Those relevant contents form part of this Report of the Directors. Details of the Group's financial risk management are disclosed in note 46 to the financial statements.

In addition, relevant details of the Company's environment policies and performance and key relationships with employees, customers and suppliers will be reported in the Environmental, Social and Governance Report of the Company to be published separately. The Directors were not aware of any non-compliance with the relevant laws and regulations that have a significant impact on the Group during the year.

DIVIDENDS

An interim dividend of HK5.0 cents (2017 – HK4.5 cents) per ordinary share, absorbing an amount of approximately HK\$44.9 million (2017 – HK\$40.4 million), was paid to the holders of ordinary shares during the year.

The Directors now recommend the payment of a final dividend of HK14.0 cents (2017 – HK11.5 cents) per ordinary share for the year ended 31st December, 2018, absorbing an amount of approximately HK\$125.8 million (2017 – HK\$103.4 million), payable to holders of ordinary shares on the Register of Ordinary Shareholders on 12th June, 2019.

ANNUAL GENERAL MEETING

The 2019 Annual General Meeting of the Company will be convened to be held on Monday, 3rd June, 2019. Relevant notice of the Meeting will be contained in the circular of the Company relating to the re-election of Directors and the general mandates to issue and repurchase ordinary shares (the "Circular") to be sent to the shareholders, together with this Annual Report.

CLOSURE OF REGISTER

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

- (i) from Wednesday, 29th May, 2019 to Monday, 3rd June, 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2019 Annual General Meeting. In order to be entitled to attend and vote at the 2019 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 Tuesday, 28th May, 2019; and
- (ii) from Monday, 10th June, 2019 to Wednesday, 12th June, 2019, 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 Thursday, 6th June, 2019.

The relevant dividend warrants for the aforesaid final dividend are expected to be despatched on or about 28th June, 2019.

DIRECTORS

The Directors of the Company are:

Mr. Lo Yuk Sui
Miss Lo Po Man
Dr. Francis Choi Chee Ming, GBS, JP
Ms. Belinda Yeung Bik Yiu
Mr. Donald Fan Tung
Ms. Alice Kan Lai Kuen
Professor Japhet Sebastian Law
Mr. Jimmy Lo Chun To
Mr. Kenneth Ng Kwai Kai
Ms. Winnie Ng, JP
Mr. Allen Wan Tze Wai
Mr. Wong Chi Keung

During the year, on 1st January, 2018, Mr. Ng Siu Chan resigned as an Independent Non-Executive Director and Ms. Winnie Ng was appointed as an Independent Non-Executive Director.

In accordance with Bye-law 109(A) of the Bye-laws of the Company, the following Directors will retire from office by rotation at the 2019 Annual General Meeting:

- (i) Miss Lo Po Man (Vice Chairman and Managing Director);
- (ii) Professor Japhet Sebastian Law (Independent Non-Executive Director);
- (iii) Mr. Kenneth Ng Kwai Kai (Executive Director); and
- (iv) Mr. Allen Wan Tze Wai (Executive Director).

Report of the Directors (Cont'd)

All the above retiring Directors, being eligible, have offered themselves for re-election at the 2019 Annual General Meeting. Details of these Directors, which are required to be disclosed pursuant to Rules 13.51(2) and 13.74 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), will be set out in the Circular.

The Company has received from each of the four incumbent Independent Non-Executive Directors an annual confirmation of independence as required under Rule 3.13 of the Listing Rules. The Company considers that all of these Independent Non-Executive Directors are independent.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as otherwise disclosed herein, none of the Directors of the Company nor a connected entity of the Directors had any beneficial interests, whether direct or indirect, in any significant transactions, arrangements or contracts to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party at the end of the reporting period or at any time during the year.

None of the Directors had any service contract, which is not determinable by the employer within one year without payment of compensation (other than statutory compensation), with the Company or any of its subsidiaries during the year.

At no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement whose objects are to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year. The Company has taken out and maintained directors' liability insurance that provides appropriate cover for the Directors.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) of the Company, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

The Company/ Name of associated corporation	Name of Director	Class of shares held	Personal interests	Number of shares held		Total (Approximate percentage of the issued shares as at 31st December, 2018)
				Corporate interests	Family/Other interests	
1. The Company	Mr. Lo Yuk Sui	Ordinary (issued)	24,200	622,855,261 (Note c)	260,700	623,140,161 (69.33%)
	Miss Lo Po Man	Ordinary (issued)	300,000	–	269,169 (Note d)	569,169 (0.06%)
	Dr. Francis Choi Chee Ming	Ordinary (issued)	50,240,000	–	–	50,240,000 (5.59%)
	Mr. Allen Wan Tze Wai	Ordinary (issued)	10,200	–	–	10,200 (0.001%)
2. Century City International Holdings Limited ("CCIHL")	Mr. Lo Yuk Sui	Ordinary (issued)	110,867,396	1,769,164,691 (Note a)	380,683	1,880,412,770 (58.69%)
	Miss Lo Po Man	Ordinary (issued)	112,298	–	–	112,298 (0.004%)
	Ms. Belinda Yeung Bik Yiu	Ordinary (issued)	200	–	–	200 (0.000%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	251,735	–	–	251,735 (0.008%)
	Mr. Allen Wan Tze Wai	Ordinary (issued)	24,000	–	–	24,000 (0.001%)

Report of the Directors (Cont'd)

	The Company/ Name of associated corporation	Name of Director	Class of shares held	Number of shares held			Total (Approximate percentage of the issued shares as at 31st December, 2018)	
				Personal interests	Corporate interests	Family/Other interests		
3.	Paliburg Holdings Limited ("PHL")	Mr. Lo Yuk Sui	Ordinary (issued)	90,078,014	740,860,803 (Note b)	15,000	830,953,817 (74.55%)	
		Miss Lo Po Man	Ordinary (issued)	1,116,000	–	–	1,116,000 (0.10%)	
		Mr. Donald Fan Tung	Ordinary (issued)	556	–	–	556 (0.000%)	
		Mr. Jimmy Lo Chun To	Ordinary (issued)	2,274,600	–	–	2,274,600 (0.20%)	
		Mr. Kenneth Ng Kwai Kai	Ordinary (issued)	176,200	–	–	176,200 (0.02%)	
		Mr. Allen Wan Tze Wai	Ordinary (issued)	200	–	–	200 (0.000%)	
4.	Cosmopolitan International Holdings Limited ("Cosmopolitan")	Mr. Lo Yuk Sui	Ordinary (i) (issued)	–	3,288,556,716 (Note e)	–	3,288,556,716	
			(ii) (unissued)	–	5,024,058,784 (Note f)	–	5,024,058,784	
							Total: 8,312,615,500 (188.34%)	
				Preference (issued)	–	2,345,487,356 (Note f)	–	2,345,487,356 (99.99%)
		Miss Lo Po Man	Ordinary (issued)	1,380,000	–	–	1,380,000 (0.03%)	
		Mr. Jimmy Lo Chun To	Ordinary (issued)	2,269,101	–	–	2,269,101 (0.05%)	

The Company/ Name of associated corporation	Name of Director	Class of shares held	Personal interests	Number of shares held			Total (Approximate percentage of the issued shares as at 31st December, 2018)
				Corporate interests	Family/Other interests		
5. Regal REIT	Mr. Lo Yuk Sui	Units (issued)	-	2,443,033,102 (Note g)	-	2,443,033,102 (74.99%)	
6. 8D International (BVI) Limited	Mr. Lo Yuk Sui	Ordinary (issued)	-	1,000 (Note h)	-	1,000 (100%)	

Notes:

- (a) The interests in 1,769,164,691 issued ordinary shares of CCIHL were held through companies wholly owned by Mr. Lo Yuk Sui ("Mr. Lo").
- (b) The interests in 694,124,547 issued ordinary shares of PHL were held through companies wholly owned by CCIHL, in which Mr. Lo held 58.68% shareholding interests.

The interests in 16,271,685 issued ordinary shares of PHL were held through corporations controlled by Mr. Lo as detailed below:

Name of corporation	Controlled by	% of control
Wealth Master International Limited	Mr. Lo	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00

The interests in 30,464,571 issued ordinary shares of PHL were held through corporations controlled by Mr. Lo as detailed below:

Name of corporation	Controlled by	% of control
Wealth Master International Limited	Mr. Lo	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00
Splendid All Holdings Limited	Select Wise Holdings Limited	100.00

- (c) The interests in 421,400 issued ordinary shares of the Company were held through companies wholly owned by CCIHL, in which Mr. Lo held 58.68% shareholding interests. The interests in 599,025,861 issued ordinary shares of the Company were held through companies wholly owned by PHL, in which CCIHL held 62.28% shareholding interests. The interests in the other 23,408,000 issued ordinary shares of the Company were held through a wholly owned subsidiary of Cosmopolitan, in which P&R Holdings Limited ("P&R Holdings") (which is owned as to 50% each by PHL and the Company through their respective wholly owned subsidiaries) held 62.81% shareholding interests. PHL held 69.25% shareholding interests in the Company.
- (d) The interests in 269,169 issued ordinary shares of the Company were held by Miss Lo Po Man as the beneficiary of a trust.

- (e) The interests in 2,772,116,716 issued ordinary shares of Cosmopolitan were held through wholly owned subsidiaries of P&R Holdings, which is owned as to 50% each by PHL and the Company through their respective wholly owned subsidiaries. The interests in the other 516,440,000 issued ordinary shares of Cosmopolitan were held through wholly owned subsidiaries of the Company. PHL, in which CCIHL held 62.28% shareholding interests, held 69.25% shareholding interests in the Company. Mr. Lo held 58.68% shareholding interests in CCIHL.
- (f) The interests in 5,024,058,784 unissued ordinary shares of Cosmopolitan were held through wholly owned subsidiaries of P&R Holdings, which is owned as to 50% each by PHL and the Company through their respective wholly owned subsidiaries. PHL, in which CCIHL held 62.28% shareholding interests, held 69.25% shareholding interests in the Company. Mr. Lo held 58.68% shareholding interests in CCIHL.

The interests in 2,345,487,356 unissued ordinary shares of Cosmopolitan are derivative interests held through interests in 2,345,487,356 convertible preference shares of Cosmopolitan, convertible into new ordinary shares of Cosmopolitan on a one to one basis (subject to adjustments in accordance with the terms of the convertible preference shares).

The interests in 1,428,571,428 unissued ordinary shares of Cosmopolitan are derivative interests held through interests in the convertible bonds in the principal amount of HK\$500,000,000 issued by a wholly owned subsidiary of Cosmopolitan (the "CB Issuer"). The convertible bonds are convertible into new ordinary shares of Cosmopolitan at a conversion price of HK\$0.35 per ordinary share (subject to adjustments in accordance with the terms of the convertible bonds).

The interests in 1,250,000,000 unissued ordinary shares of Cosmopolitan are derivative interests held through interests in the convertible bonds in a principal amount of HK\$500,000,000 issued by the CB Issuer. The convertible bonds are convertible into new ordinary shares of Cosmopolitan at a conversion price of HK\$0.40 per ordinary share (subject to adjustments in accordance with the terms of the convertible bonds).

- (g) The interests in 10,219,000 issued units of Regal REIT were held through a wholly owned subsidiary of Cosmopolitan. The interests in 2,429,394,739 issued units of Regal REIT were held through wholly owned subsidiaries of the Company. The interests in 732,363 issued units of Regal REIT were held through wholly owned subsidiaries of PHL. The interests in 2,687,000 issued units of Regal REIT were held through wholly owned subsidiaries of CCIHL. Cosmopolitan was held as to 62.81% shareholding interests by P&R Holdings, which is owned as to 50% each by PHL and the Company through their respective wholly owned subsidiaries. PHL, in which CCIHL held 62.28% shareholding interests, held 69.25% shareholding interests in the Company. Mr. Lo held 58.68% shareholding interests in CCIHL.
- (h) 400 shares were held through companies controlled by CCIHL, in which Mr. Lo held 58.68% shareholding interests, and 600 shares were held through a company controlled by Mr. Lo.

Save as disclosed herein, as at 31st December, 2018, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) of the Company, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2018, so far as is known to the Directors and the chief executive of the Company, the following substantial shareholders (not being a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or notified to the Company pursuant to the SFO:

Name of substantial shareholder	Number of issued ordinary shares held	Number of underlying ordinary shares held	Total number of ordinary shares (issued and underlying) held	Approximate percentage of issued ordinary shares as at 31st December, 2018
YSL International Holdings Limited ("YSL Int'l") (Note i)	622,855,261	–	622,855,261	69.30%
Grand Modern Investments Limited ("Grand Modern") (Note ii)	622,855,261	–	622,855,261	69.30%
CCIHL (Note iii)	622,855,261	–	622,855,261	69.30%
Century City BVI Holdings Limited ("CCBVI") (Note iv)	622,855,261	–	622,855,261	69.30%
PHL (Note v)	622,433,861	–	622,433,861	69.25%
Paliburg Development BVI Holdings Limited (Note vi)	622,433,861	–	622,433,861	69.25%
Guo Yui Investments Limited (Note vi)	271,140,466	–	271,140,466	30.17%
Paliburg BVI Holdings Limited (Note vi)	230,870,324	–	230,870,324	25.69%
Taylor Investments Ltd. (Note vi)	154,232,305	–	154,232,305	17.16%
Glaser Holdings Limited (Note vi)	58,682,832	–	58,682,832	6.53%

Report of the Directors (Cont'd)

Notes:

- (i) The interests in the ordinary shares of the Company held by YSL Int'l were included in the corporate interests of Mr. Lo Yuk Sui in the ordinary shares of the Company as disclosed under the section headed "Directors' Interests in Share Capital" above.
- (ii) Grand Modern is a wholly owned subsidiary of YSL Int'l and its interests in the ordinary shares of the Company were included in the interests held by YSL Int'l.
- (iii) CCIHL is owned as to 50.89% by Grand Modern and its interests in the ordinary shares of the Company were included in the interests held by Grand Modern.
- (iv) CCBVI is a wholly owned subsidiary of CCIHL and its interests in the ordinary shares of the Company were included in the interests held by CCIHL.
- (v) PHL is a listed subsidiary of CCIHL, which held 62.28% shareholding interests in PHL, and PHL's interests in the ordinary shares of the Company were included in the interests held by CCIHL.
- (vi) These companies are wholly owned subsidiaries of PHL and their interests in the ordinary shares of the Company were included in the interests held by PHL.

Save as disclosed herein, the Directors and the chief executive of the Company are not aware that there is any person (not being a Director or chief executive of the Company) who, as at 31st December, 2018, had an interest or short position in the shares and underlying shares of the Company which are recorded in the register required to be kept under section 336 of the SFO or notified to the Company pursuant to the SFO.

Details of directorships of the Company's Directors in each of those companies which has an interest in the shares and underlying shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO are set out as follows:

- (1) Mr. Lo Yuk Sui is a director of YSL Int'l.
- (2) Mr. Lo Yuk Sui, Miss Lo Po Man and Mr. Jimmy Lo Chun To are directors of Grand Modern.
- (3) Mr. Lo Yuk Sui, Miss Lo Po Man, Mr. Donald Fan Tung, Mr. Jimmy Lo Chun To, Mr. Kenneth Ng Kwai Kai, Ms. Winnie Ng and Mr. Wong Chi Keung are directors of CCIHL and PHL.
- (4) Mr. Lo Yuk Sui, Miss Lo Po Man, Mr. Donald Fan Tung, Mr. Jimmy Lo Chun To and Mr. Kenneth Ng Kwai Kai are directors of all the above-mentioned wholly owned subsidiaries of CCIHL and PHL.

CHANGE IN INFORMATION OF DIRECTORS

The change in the information of the Directors of the Company, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, since the publication of the interim report of the Company for the six months ended 30th June, 2018 is set out below:

Name of Director	Details of changes
<i>Executive Directors:</i>	
Mr. Lo Yuk Sui	<ul style="list-style-type: none"> Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK\$450,000 commencing from January 2019. (Notes (i) and (ii))
Miss Lo Po Man	<ul style="list-style-type: none"> Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK\$154,700 commencing from January 2019. (Note (i))
Ms. Belinda Yeung Bik Yiu	<ul style="list-style-type: none"> Entitled to a monthly salary, based on services rendered to the Group, in an amount of HK\$245,000 commencing from January 2019. (Note (i))
Mr. Donald Fan Tung	<ul style="list-style-type: none"> Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK\$96,800 commencing from January 2019. (Note (i))
Mr. Jimmy Lo Chun To	<ul style="list-style-type: none"> Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK\$47,600 commencing from January 2019. (Note (i))
Mr. Kenneth Ng Kwai Kai	<ul style="list-style-type: none"> Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK\$157,200 commencing from January 2019. (Note (i))
Mr. Allen Wan Tze Wai	<ul style="list-style-type: none"> Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK\$103,200 commencing from January 2019. (Note (i))

Notes:

- (i) Each Executive Director is also entitled to a performance based discretionary bonus and other related employee benefits and allowances for the executive role in the Group, and normal Director's fee in the amount of HK\$150,000 per annum in acting as a Director of the Company. Details of the remuneration of the Executive Directors for the year ended 31st December, 2018 are disclosed in note 8 to the financial statements.
- (ii) Mr. Lo Yuk Sui, who is also the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company, is entitled to normal fee of HK\$50,000 per annum in acting as the chairman or a member of each of such board committees.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The updated biographical details of the Directors of the Company are set out in the preceding section headed "Directors' Profile".

DISCLOSURE PURSUANT TO RULE 13.22 OF CHAPTER 13 OF THE LISTING RULES

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Rule 13.22 of Chapter 13 of the Listing Rules relating to the information required to be disclosed under Rule 13.16:

Financial Assistance provided to and Guarantees given for Affiliated Companies (Rule 13.16 of Chapter 13)

Details of the financial assistance provided to affiliated companies by the Group as at 31st December, 2018 are set out below:

Name of Affiliated Companies		Principal Amount of Advances (HK\$'million)	Interest Receivable (HK\$'million)	Guarantee given for Banking Facilities		
				(i) Principal Amount of Banking Facilities (HK\$'million)	(ii) Amount of Banking Facilities Drawdown (HK\$'million)	
8D International (BVI) Limited	(A)	13.6	–	Nil	Nil	
8D Matrix Limited	(B)	68.8	–	Nil	Nil	
P&R Holdings Limited	(C)	2,375.8	(D) 69.5	(E)(i) 2,537.8	(E)(ii) 2,334.1	
				Total:	(A) to (E)(i)	5,065.5
					(A) to (D) & (E)(ii)	4,861.8

8D International (BVI) Limited ("8D-BVI") is a 30% owned associate of the Company, which was principally involved in the development and distribution of technologically advanced security and building related systems and software development and promotions businesses. The remaining shareholding interests in 8D-BVI are indirectly owned as to 10% by CCIHL and 60% by Mr. Lo through his close associates (as defined in the Listing Rules). The advances were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in 8D-BVI, for the purpose of financing the working capital of 8D-BVI. The advances are unsecured, interest-free and repayable on demand.

8D Matrix Limited ("8D Matrix") is a 30% owned associate of the Company, which owns two wholly owned subsidiaries, Century Innovative Technology Limited and 深圳市世紀創意科技有限公司 (collectively, "Century Innovative Technology"), which are principally engaged in the online education, entertainment and technology business based on the "Bodhi and Friends" characters. 8D Matrix also owns a wholly owned subsidiary involved in advertising and promotion business. The remaining shareholding interests in 8D Matrix are owned as to 10% indirectly by CCIHL and 60% indirectly by Mr. Lo through his close associates (as defined in the Listing Rules). The advances were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in 8D Matrix, for the purpose of financing the working capital of 8D Matrix and Century Innovative Technology. The advances are unsecured, interest-free and repayable on demand.

P&R Holdings principally engages in the development of real estate projects for sale and/or leasing and the undertaking of related investment and financing activities. P&R Holdings group holds, through its wholly owned subsidiaries, interests in a number of property development projects in Hong Kong and also holds, through Cosmopolitan (the listed subsidiary of P&R Holdings), interests in certain property development projects in Mainland China. Information relating to the investment of P&R Holdings group in such property development projects are disclosed in the preceding Management Discussion and Analysis. The advances to P&R Holdings were provided by a wholly owned subsidiary of the Company in the form of shareholder's loans in proportion to its shareholding interest in P&R Holdings. The advances to P&R Holdings are unsecured and have no fixed terms of repayment and except for an aggregate amount of HK\$1,863.7 million which bears interest at a fixed rate of 4% per annum to 5.125% per annum, the balance of the advances is interest free. The guarantees were provided by the Company on a several basis in proportion to its shareholding interests in P&R Holdings and were given in respect of the respective bank loan facilities of, in aggregate, HK\$2,537.8 million made available to seven wholly owned subsidiaries of P&R Holdings for financing their development projects in Hong Kong. Further information relating to the Group's share of the maximum capital commitment to P&R Holdings, the shareholder's loans provided by the Group under such commitment and the several guarantees provided by the Company for securing banking facilities granted to certain wholly owned subsidiaries of P&R Holdings is set out in note 16 to the consolidated financial statements.

Calculated on the basis shown above, as at 31st December, 2018, the aggregate amount of financial assistance provided to and bank guarantees given for affiliated companies by the Group in the respective sums of (a) HK\$5,065.5 million (based on the total available amount of the banking facilities) and (b) HK\$4,861.8 million (based on the total amount of banking facilities drawdown) represented (a) 16.0% and (b) 15.3% of the consolidated total assets of the Group of HK\$31,737.9 million, calculated by reference to its latest audited consolidated financial statements for the year ended 31st December, 2018.

Save as disclosed above, there were no other financial assistance provided to or guarantees given for affiliated companies by the Group as at 31st December, 2018, which were discloseable pursuant to Rule 13.16 of Chapter 13 of the Listing Rules.

A combined statement of financial position of the abovenamed affiliated companies and the Group's attributable interest in these affiliated companies are presented below:

	Combined statement of financial position (HK\$'million)	The Group's attributable interest (HK\$'million)
Non-current assets	6,310.6	3,153.8
Current assets	8,963.6	4,477.8
Current liabilities	(4,322.5)	(2,159.8)
Non-current liabilities	(8,390.1)	(4,140.1)
	<hr/>	<hr/>
	2,561.6	1,331.7
Non-controlling interests	(282.9)	(141.4)
	<hr/>	<hr/>
Net assets attributable to equity holders of the parent	<u>2,278.7</u>	<u>1,190.3</u>

Report of the Directors (Cont'd)

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in Bermuda, being the jurisdiction in which the Company is incorporated.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the purchases from the Group's five largest suppliers and the percentage of turnover or sales attributable to the Group's five largest customers combined in respect of goods and services was in each case less than 30% of the total amount involved.

BORROWINGS

The details of the Group's borrowings at the end of the reporting period are set out in notes 30 and 31 to the financial statements.

SHARE CAPITAL

The details of movements in the share capital of the Company, together with the reasons therefor, during the year are set out in note 34 to the financial statements.

SHARE PREMIUM ACCOUNT

The details of movements in the Company's share premium account during the year are set out in note 34 to the financial statements.

CAPITAL REDEMPTION RESERVE

The details of movements in the capital redemption reserve account during the year are set out in consolidated statement of changes in equity.

HEDGE RESERVE

The details of movements in the hedge reserve account during the year are set out in consolidated statement of changes in equity.

CAPITAL RESERVE

The details of movements in the capital reserve account during the year are set out in consolidated statement of changes in equity.

PROPERTY REVALUATION RESERVE

The details of movements in the property revaluation reserve account during the year are set out in consolidated statement of changes in equity.

AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE

The details of movements in the available-for-sale investment revaluation reserve account during the year are set out in consolidated statement of changes in equity.

EXCHANGE EQUALISATION RESERVE

The details of movements in the exchange equalisation reserve account during the year are set out in consolidated statement of changes in equity.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 1 to the financial statements.

JOINT VENTURES AND ASSOCIATES

Particulars of the Group's investments in its joint ventures and associates are set out in notes 16 and 17 to the financial statements, respectively.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$2.0 million.

DISTRIBUTABLE RESERVES

As at 31st December, 2018, the Company's reserves available for distribution calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK\$5,167.9 million, of which HK\$125.8 million has been proposed as final dividend for the year.

In addition, the Company's share premium account, in the amount of HK\$404.7 million, may be distributed in the form of fully paid bonus shares.

AUDITOR

Ernst & Young retire and, being eligible, offer themselves for re-appointment.



Report of the Directors (Cont'd)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Company for the year ended 31st December, 2018 will be published as a separate report from this Annual Report in compliance with relevant requirements under the Listing Rules on or before 31st July, 2019.

On behalf of the Board

LO YUK SUI

Chairman

Hong Kong

26th March, 2019

Corporate Governance Report

The Board of Directors of the Company (the "Board") is pleased to present the Corporate Governance Report of the Company for the year ended 31st December, 2018.

The Company is committed to maintaining good corporate governance practices and procedures. The Company conducts regular review of its policies and practices in respect of the management and corporate matters of the Group. To comply with the new requirements for enhanced operating standards, revision of the existing policies and practices and introduction of appropriate new measures have been implemented. Periodic review of the system and controls within the Group is also carried out by the Company to comply with the prevailing standards and requirements of good corporate governance.

(I) CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code Provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the year ended 31st December, 2018, 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.

(II) BOARD OF DIRECTORS

The Board currently 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
Ms. Winnie Ng, JP
Mr. Wong Chi Keung

Corporate Governance Report (Cont'd)

The personal and biographical details of the current Directors, including the relationships among them, are disclosed in the preceding section headed "Directors' Profile" contained in this Annual Report.

During the year ended 31st December, 2018, the Company has fully complied with Rules 3.10 and 3.10A of the Listing Rules regarding the number of Independent Non-Executive Directors and the requirement that at least one of these Directors must have appropriate professional qualifications.

Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all Independent Non-Executive Directors have met the independence guidelines of Rule 3.13 of the Listing Rules.

The Board conducts regular meetings to discuss and decide on major corporate, strategic, business and operational issues. Appropriate and sufficient information is provided to Board members in a timely manner in order to enable them to discharging their duties.

All material policies and decisions remain within the authority of the Board as a whole. The Board only delegates authorities to management to an extent that would not significantly hinder or reduce the ability of the Board to discharge its proper functions as a whole. The functions of the Board and those delegated to management of the Company are properly distinguished and clarified. Review of the formalised arrangements will be carried out on a periodic basis to ensure that they remain appropriate to the needs of the Company. The Board is overall responsible for developing, reviewing and/or monitoring the Company's policies and practices on corporate governance and compliance with legal and regulatory requirements.

In year 2018, the attendance rates of individual Board members of the Company were as follows:

Name of Directors	Attendance	
	Board Meetings	General Meetings
<i>Executive Directors</i>		
Mr. Lo Yuk Sui (<i>Chairman and Chief Executive Officer</i>)	18/18	1/1
Miss Lo Po Man (<i>Vice Chairman and Managing Director</i>)	18/18	1/1
Ms. Belinda Yeung Bik Yiu (<i>Chief Operating Officer</i>)	17/18	1/1
Mr. Donald Fan Tung	18/18	1/1
Mr. Jimmy Lo Chun To	18/18	1/1
Mr. Kenneth Ng Kwai Kai	18/18	1/1
Mr. Allen Wan Tze Wai	18/18	1/1
<i>Non-Executive Director</i>		
Dr. Francis Choi Chee Ming, GBS, JP (<i>Vice Chairman</i>)	18/18	1/1
<i>Independent Non-Executive Directors</i>		
Ms. Alice Kan Lai Kuen	18/18	1/1
Professor Japhet Sebastian Law	18/18	1/1
Ms. Winnie Ng, JP	18/18	1/1
Mr. Wong Chi Keung	18/18	1/1

The Chairman or an Executive Director so delegated is responsible for providing every newly appointed Director with an induction on the first occasion of his/her appointment to ensure that he/she has a proper understanding of the operations and business of the Group. With respect to compliance matters, the Company Secretary is responsible for providing any new Director with information and materials relating to his/her responsibilities under applicable statutory and regulatory requirements. Subsequent updating about the latest changes and development of such requirements will be sent to the Directors by the Company Secretary. In addition, the Directors have participated in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. In year 2018, the Company arranged for Directors a seminar covering topics on, among others, minority shareholder claims, market misconduct cases involving management and latest changes relating to anti money laundering laws and regulations. The training received by the Directors during year 2018 is summarised below:

Name of Directors	Types of training
<i>Executive Directors</i>	
Mr. Lo Yuk Sui (<i>Chairman and Chief Executive Officer</i>)	A, B
Miss Lo Po Man (<i>Vice Chairman and Managing Director</i>)	A, B
Ms. Belinda Yeung Bik Yiu (<i>Chief Operating Officer</i>)	B
Mr. Donald Fan Tung	A, B
Mr. Jimmy Lo Chun To	A, B
Mr. Kenneth Ng Kwai Kai	A, B
Mr. Allen Wan Tze Wai	A, B
<i>Non-Executive Director</i>	
Dr. Francis Choi Chee Ming, GBS, JP (<i>Vice Chairman</i>)	B
<i>Independent Non-Executive Directors</i>	
Ms. Alice Kan Lai Kuen	A, B
Professor Japhet Sebastian Law	A, B
Ms. Winnie Ng, JP	A, B
Mr. Wong Chi Keung	A, B

A - Attending briefings/seminars/conferences/forums
 B - Reading/studying training or other materials

(III) BOARD COMMITTEES

There are three board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, established by the Board for overseeing different functions delegated by the Board.

(a) Audit Committee

The Audit Committee was established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. The terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

The Audit Committee currently comprises the following members:

Independent Non-Executive Directors:

Mr. Wong Chi Keung (*Chairman of the Committee*)

Ms. Alice Kan Lai Kuen (*Member*)

Professor Japhet Sebastian Law (*Member*)

Ms. Winnie Ng, JP (*Member*)

Non-Executive Director:

Dr. Francis Choi Chee Ming, GBS, JP (*Member*)

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the interim and annual financial statements.

As both the Board and the Audit Committee recommended to re-appoint the current external Auditors, Messrs. Ernst & Young, no circumstances exist as would require an explanation from the Audit Committee as to why the Board has taken a different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of the external Auditors.

In year 2018, the Audit Committee met twice and the meetings were attended by the external Auditors of the Company. The attendance rates of individual Audit Committee members of the Company were as follows:

Name of Audit Committee members	Attendance
Mr. Wong Chi Keung (<i>Chairman of the Committee</i>)	2/2
Dr. Francis Choi Chee Ming, GBS, JP	2/2
Ms. Alice Kan Lai Kuen	2/2
Professor Japhet Sebastian Law	2/2
Ms. Winnie Ng, JP	2/2

(b) Remuneration Committee

The Remuneration Committee was established with specific written terms of reference that deal with its authority and duties. The terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange. The principal responsibilities of the Remuneration Committee are to review the remuneration of individual Directors and senior management and to make recommendations to the Board on the policy and structure for the determination of the remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy of the Company on such matters.

The Remuneration Committee currently comprises the following members:

Executive Director:

Mr. Lo Yuk Sui (*Member*)

Independent Non-Executive Directors:

Mr. Wong Chi Keung (*Chairman of the Committee*)

Ms. Alice Kan Lai Kuen (*Member*)

Ms. Winnie Ng, JP (*Member*)

Mr. Kenneth Ng Kwai Kai, an Executive Director of the Company, has acted as the Secretary of the Committee.

In year 2018, the Remuneration Committee met once and has reviewed the Company's policy and structure for the remuneration of Directors and senior management. The attendance rates of individual Remuneration Committee members of the Company were as follows:

Name of Remuneration Committee members	Attendance
Mr. Wong Chi Keung (<i>Chairman of the Committee</i>)	1/1
Mr. Lo Yuk Sui	1/1
Ms. Alice Kan Lai Kuen	1/1
Ms. Winnie Ng, JP	1/1

Pursuant to the terms of reference of the Remuneration Committee, the Remuneration Committee is delegated to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment).

The remuneration of the senior management (comprising Executive Directors) of the Company for the year ended 31st December, 2018 by band is set out below:

Remuneration band	Number of individuals
HK\$1,500,001 – 2,000,000	3
HK\$2,000,001 – 2,500,000	0
Within bands from HK\$2,500,001 – 3,500,000	1
Within bands from HK\$3,500,001 – 4,500,000	1
Within bands from HK\$4,500,001 – 10,500,000	1
HK\$10,500,001 – 11,000,000	1

Further details of the Executive Directors' remuneration for the year ended 31st December, 2018 are disclosed in note 8 to the financial statements contained in this Annual Report.

(c) Nomination Committee

The Nomination Committee was established with specific written terms of reference by the Board for the purpose of making recommendations to the Board in relation to the nomination and appointment of Directors, with a view to ensuring fairness and transparency in the nomination and selection procedures. The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The Nomination Committee currently comprises the following members:

Executive Director:

Mr. Lo Yuk Sui (*Chairman of the Committee*)

Independent Non-Executive Directors:

Ms. Alice Kan Lai Kuen (*Member*)

Ms. Winnie Ng, JP (*Member*)

Mr. Wong Chi Keung (*Member*)

The Company views diversity at the Board level essential for attaining the Group's strategic and business objectives as well as ensuring its sustainable development. A Board Diversity Policy has been adopted to set out the policy for designing the composition of the Board, aiming to achieve diversity with balanced skills and expertise. The diversity of the Board members is assessed basing on a range of perspectives including but not limited to gender, age, cultural and educational background, ethnicity, professional acumen, industry experience and other individual qualities. The Nomination Committee will discuss and review annually the structure, size and composition of the Board and agree on measurable objectives for achieving diversity on the Board and make relevant recommendation to the Board for adoption.

In year 2018, the Nomination Committee met once to review and assess the overall diversity of the composition of the Board with reference to the various aspects as set out in the Board Diversity Policy. The Nomination Committee also considered the biographical details and other related particulars of those Executive, Non-Executive and Independent Non-Executive Directors of the Company, who retired and offered themselves for re-election at the annual general meeting of the Company held in June 2018 in accordance with the By-laws of the Company (the "then Retiring Directors"), with reference to the Board Diversity Policy and their contributions to the Board and the Group during their tenure. The particulars of the then Retiring Directors were disclosed in the Company's annual report for the year 2017 and its circular to the shareholders accompanying the 2017 annual report. The then Retiring Directors had extensive experience and knowledge in their respective professional and commercial fields, who could contribute valuable advice on the business and development of the Group and can also conform with the diversity policy of the Board. The then Retiring Directors were re-elected as Directors by the Company's shareholders at its 2018 annual general meeting. The attendance rates of individual Nomination Committee members of the Company were as follows:

Name of Nomination Committee members	Attendance
Mr. Lo Yuk Sui (<i>Chairman of the Committee</i>)	1/1
Ms. Alice Kan Lai Kuen	1/1
Ms. Winnie Ng, JP	1/1
Mr. Wong Chi Keung	1/1

(IV) DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors of the Company acknowledge their responsibility for preparing the financial statements of the Group, which give a true and fair view of the state of affairs of the Group, and ensuring that appropriate accounting policies are selected and applied consistently and that the financial statements are prepared in accordance with the relevant statutory requirements and applicable accounting standards. The Directors will also ensure that the financial statements are published in a timely manner. As a manpower policy of the Group, which is subject to regular review by the Directors and senior management, adequate resources have been allocated to the accounting, financial reporting and internal audit functions, with staff members possessing appropriate qualifications and experience engaged in the discharge of those relevant functions. The relevant staff members attend seminars and workshops organised by the professional accounting bodies on a regular basis. The overall budgets allocated to these functions have been reviewed and considered to be adequate.

The statement by the external Auditor, Messrs. Ernst & Young, about their reporting responsibilities is set out in the Independent Auditor's Report contained in this Annual Report.

The financial statements are prepared on a going concern basis. The Directors confirm that, to the best of their knowledge, they are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

(V) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the "Code for Securities Transactions by Directors of Regal Hotels International Holdings Limited" (the "Regal Code"), on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), as the code of conduct governing the securities transactions by the Directors of the Company.

Following specific enquiry by the Company, the Directors have confirmed that they have complied with the Model Code and the Regal Code during the year ended 31st December, 2018.

(VI) RISK MANAGEMENT AND INTERNAL CONTROL

The Board oversees the risk management and internal control systems of the Group on an ongoing basis. It has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group during the year, including financial, operational and compliance controls and risk management and internal control functions, with a view to safeguarding the shareholders' investment and the Company's assets and business operations. The risk management and internal control systems of the Group are considered effective and adequate. Such systems were designed to manage rather than to eliminate the risk of failure in achieving the Group's business objectives.

Management of the Company has put into effect a full set of corporate policies and procedures as well as detailed operating manuals for the hotel operations of the Group, with an objective to achieving sound and effective risk management and internal control systems. Separate meetings attended by Executive Directors, Group Financial Controller, Area Financial Controller, Hotel General Managers and Hotel Financial Controllers are held regularly to review the effectiveness of the risk management and internal control systems, to identify any significant management and operational risks as well as control failings or weaknesses, and also to review the need for any control improvements or updating to respond to changes in the business and external environment. Regular management audits have also been performed by the Area Financial Control department on the risk management and internal control systems of individual hotels to ensure that there are no significant control failings or weaknesses. Recommendations for improvement are forwarded to individual hotels' management for implementation. While the regular monitoring of the risk management and internal control mechanisms is mainly conducted by the delegated Executive Directors and senior management staff members, support and advice from external consultants and professionals are sought as and when required.

The Board is responsible for the Company's risk management and internal control systems and for reviewing the effectiveness of such systems. Accordingly, while periodic committee meetings are held with the delegated Executive Directors and senior management staff members, clear instructions have been provided to management of the Company that any material issues relating to the risk management and internal control systems, particularly any incidence of significant control failings or weaknesses that has had, or might have, a material impact on the business of the Group is to be reported to the Board and the Audit Committee of the Company on a timely basis.

The Company has established policy for ensuring that inside information is disseminated to the public in an equal and timely manner in accordance with applicable laws and regulations. Senior management executives of the corporate affairs and financial control functions of the Group are delegated with responsibilities to control and monitor the proper procedures to be observed on the disclosure of inside information. Access to inside information is at all times confined to relevant senior management executives and on "as needed" basis, until proper disclosure or dissemination of inside information in accordance with applicable laws and regulations. Relevant personnel and other professional parties involved are reminded to preserve confidentiality of the inside information until it is publicly disclosed.

In addition, the Group's internal auditor has selected different aspects of the internal control system for his review on a regular basis and has confirmed to the Audit Committee that no material deficiency is noted.

(VII) AUDITOR'S REMUNERATION

Messrs. Ernst & Young have been re-appointed as the external auditor of the Company at the 2018 Annual General Meeting until the conclusion of the forthcoming 2019 Annual General Meeting.

The remuneration to Messrs. Ernst & Young, the auditor of the Company, in respect of the audit and non-audit services rendered for the year ended 31st December, 2018 were HK\$7.2 million (2017 - HK\$7.9 million) and HK\$1.3 million (2017 - HK\$3.4 million), respectively. The significant non-audit services covered by these fees are as follows:

Nature of services	Fees paid (HK\$'million)
(1) Interim review of the financial statements of the Group and the Regal REIT group, respectively, for the six months ended 30th June, 2018	1.0
(2) Compliance and other services to the Group	0.3

(VIII) SHAREHOLDERS' RIGHT

Special general meetings may be convened upon receipt of written request submitted by any shareholder(s) of the Company holding not less than one-tenth of the share capital of the Company carrying the right of voting at general meetings of the Company. Such written requisition must state the purposes of the meeting, and be signed by the requisitioner(s) and deposited at the Head Office of the Company at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong (for the attention of the Company Secretary).

Shareholders may also send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company at the abovementioned address (for the attention of the Company Secretary).

During the year ended 31st December, 2018, the Company has not made any changes to its Bye-laws. A consolidated version of the Memorandum of Association and New Bye-laws of the Company is available on the website of the Company.

(IX) DIVIDEND POLICY

The Company has adopted a dividend policy relating to the distribution of profits or surplus of the Company to its shareholders, which can be by way of dividends or in other form of distributions (the "Dividend Policy"). The objective of the Dividend Policy is to allow the Company's shareholders to participate in its profits while balancing the need for the Company to retaining adequate reserves to fund the continuing development and growth of the Group.

Any declaration or proposed payment of dividend or distribution will be subject to the determination by the Board. In deciding or determining whether to declare or propose a dividend or distribution payable to the shareholders and the amount and details of such dividend or distribution, the Board shall consider and take into account the following factors:

- (i) the operating results of the Group;
- (ii) the retained earnings and/or distributable reserves of the Company and the members of the Group;
- (iii) the liquidity position of the Company and the Group;
- (iv) the debt to equity ratio, the return on equity and the relevant financial covenants of the Group;
- (v) contractual restrictions on the payment of dividends by the Company and the Group;
- (vi) taxation considerations;
- (vii) the working capital requirements and capital commitments of the Group and its plans for future growth and expansion;
- (viii) the expected financial performance of the Group;
- (ix) general economic conditions and other external factors that may impact on the business and/or financial performances of the Group; and
- (x) any other factors that the Board may consider appropriate and relevant.

Any declaration or proposed payment of dividend or distribution by the Company is also subject to any requirements and restrictions under the Companies Act of Bermuda, the Memorandum of Association and Bye-laws of the Company, and any other applicable laws, rules and regulations. The Board will review the Dividend Policy from time to time and, at its sole and absolute discretion, update or revise the Dividend Policy as and when considered necessary or appropriate.

Consolidated Statement of Profit or Loss

For the year ended 31st December, 2018

	Notes	2018 HK\$'million	2017 HK\$'million
REVENUE	5	2,614.1	2,560.6
Cost of sales		(1,400.4)	(1,393.6)
Gross profit		1,213.7	1,167.0
Other income and gain, net	5	311.7	530.2
Fair value gains on financial assets at fair value through profit or loss, net		75.5	376.4
Fair value gains on investment properties, net	14	5.6	53.9
Impairment loss on items of property, plant and equipment		–	(50.5)
Property selling and marketing expenses		–	(5.2)
Administrative expenses		(279.1)	(257.1)
OPERATING PROFIT BEFORE DEPRECIATION		1,327.4	1,814.7
Depreciation		(512.9)	(503.5)
OPERATING PROFIT		814.5	1,311.2
Finance costs	7	(381.4)	(368.6)
Share of profits and losses of:			
Joint ventures		174.1	146.4
Associates		0.4	(3.3)
PROFIT BEFORE TAX	6	607.6	1,085.7
Income tax	10	(40.8)	(87.4)
PROFIT FOR THE YEAR BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS		566.8	998.3
Attributable to:			
Equity holders of the parent		547.7	982.1
Non-controlling interests		19.1	16.2
		566.8	998.3
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted		HK\$0.48	HK\$0.99

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2018

	Notes	2018 HK\$'million	2017 HK\$'million
PROFIT FOR THE YEAR BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS		566.8	998.3
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments		–	28.3
Exchange differences on translating foreign operations		(15.9)	27.4
Share of other comprehensive income/(loss) of:			
A joint venture		(54.3)	68.1
An associate		(0.1)	0.2
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		(70.3)	124.0
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Gain on revaluation of property	13	–	10.6
Income tax effect	33	–	(2.5)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		–	8.1
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		(70.3)	132.1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		496.5	1,130.4
Attributable to:			
Equity holders of the parent		477.4	1,114.2
Non-controlling interests		19.1	16.2
		496.5	1,130.4

Consolidated Statement of Financial Position

As at 31st December, 2018

	Notes	2018 HK\$'million	2017 HK\$'million
NON-CURRENT ASSETS			
Property, plant and equipment	13	18,529.9	18,566.9
Investment properties	14	1,147.2	1,144.7
Properties under development	15	897.9	762.8
Investments in joint ventures	16	3,539.9	3,030.8
Investments in associates	17	16.5	15.8
Available-for-sale investments	18	–	294.1
Financial assets at fair value through profit or loss	19	550.1	1.9
Other loan	20	1,062.0	1,062.0
Debtors and deposits	22	5.7	10.5
Deferred tax assets	33	42.9	51.7
Total non-current assets		25,792.1	24,941.2
CURRENT ASSETS			
Properties held for sale	23	223.1	231.5
Inventories	24	27.8	28.9
Aircraft held for sale	25	5.9	18.4
Debtors, deposits and prepayments	22	308.2	263.4
Finance lease receivables	21	–	37.1
Held-to-maturity investments	26	–	167.9
Financial assets at amortised cost	26	481.3	–
Financial assets at fair value through profit or loss	19	2,721.8	2,030.5
Other loan	20	267.3	60.0
Derivative financial instruments	32	28.4	–
Tax recoverable		7.2	11.7
Restricted cash	27	68.5	67.7
Pledged time deposits and bank balances		24.0	550.4
Time deposits		893.5	1,681.4
Cash and bank balances		888.8	1,158.4
Total current assets		5,945.8	6,307.3
CURRENT LIABILITIES			
Creditors, deposits received and accruals	28	(425.8)	(491.1)
Contract liabilities	29	(42.6)	–
Interest bearing bank borrowings	30	(1,174.8)	(1,347.5)
Other borrowings	31	–	(1,945.8)
Derivative financial instruments	32	(1.0)	(3.0)
Tax payable		(25.6)	(23.6)
Total current liabilities		(1,669.8)	(3,811.0)
NET CURRENT ASSETS		4,276.0	2,496.3
TOTAL ASSETS LESS CURRENT LIABILITIES		30,068.1	27,437.5

Consolidated Statement of Financial Position (Cont'd)

As at 31st December, 2018

	Notes	2018 HK\$'million	2017 HK\$'million
NON-CURRENT LIABILITIES			
Creditors and deposits received	28	(97.0)	(104.0)
Interest bearing bank borrowings	30	(10,925.8)	(8,376.1)
Other borrowings	31	(2,725.9)	(2,713.7)
Deferred tax liabilities	33	(883.8)	(921.4)
Total non-current liabilities		(14,632.5)	(12,115.2)
Net assets		15,435.6	15,322.3
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	34	89.9	89.9
Reserves	35	12,774.2	12,557.0
		12,864.1	12,646.9
Perpetual securities	36	1,732.9	1,732.9
Non-controlling interests		838.6	942.5
Total equity		15,435.6	15,322.3

KENNETH NG KWAI KAI

Director

LO YUK SUI

Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2018

		Attributable to equity holders of the parent												
		Equity component of convertible bonds of a joint venture		Share premium account	Capital redemption reserve	Capital reserve	Property revaluation reserve	Available-for-sale investment revaluation reserve	Exchange equalisation reserve	Retained profits	Total	Perpetual securities	Non-controlling interests	Total equity
Notes		HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
	At 1st January, 2017	91.6	520.1	16.0	1.9	12.2	-	30.3	(105.3)	11,261.6	11,828.4	-	1,053.8	12,882.2
	Profit for the year	-	-	-	-	-	-	-	-	982.1	982.1	-	16.2	998.3
	Other comprehensive income/(loss) for the year:													
	Changes in fair value of available-for-sale investments	-	-	-	-	-	-	28.3	-	-	28.3	-	-	28.3
	Exchange differences on translating foreign operations	-	-	-	-	-	-	-	27.4	-	27.4	-	-	27.4
	Share of other comprehensive income/(loss) of:													
	A joint venture	-	-	-	-	(12.2)	-	-	66.4	-	68.1	-	-	68.1
	An associate	-	-	-	-	-	-	-	0.2	-	0.2	-	-	0.2
	Gain on revaluation of property, net of tax	-	-	-	-	-	8.1	-	-	-	8.1	-	-	8.1
	Total comprehensive income/(loss) for the year	-	-	-	13.9	(12.2)	8.1	28.3	94.0	982.1	1,114.2	-	16.2	1,130.4
	Repurchase and cancellation of ordinary shares	34	(115.4)	1.7	-	-	-	-	-	(1.7)	(117.1)	-	-	(117.1)
	Elimination of reciprocal interests	-	-	-	-	-	-	-	-	1.2	1.2	-	-	1.2
	Final 2016 dividend declared	-	-	-	-	-	-	-	-	(82.4)	(82.4)	-	(66.2)	(148.6)
	Interim 2017 dividend	11	-	-	-	-	-	-	-	(40.4)	(40.4)	-	(61.3)	(101.7)
	Issue of perpetual securities, net of issue expenses	36	-	-	-	-	-	-	-	-	-	1,732.9	-	1,732.9
	Distribution relating to perpetual securities	-	-	-	-	-	-	-	-	(57.0)	(57.0)	-	-	(57.0)
	At 31st December, 2017	89.9	404.7	17.7	15.8	-	8.1	58.6	(11.3)	12,063.4	12,646.9	1,732.9	942.5	15,322.3

Consolidated Statement of Changes in Equity (Cont'd)

For the year ended 31st December, 2018

	Attributable to equity holders of the parent											Total equity HK\$'m
	Issued capital HK\$'m	Share premium account HK\$'m	Capital redemption reserve HK\$'m	Capital reserve HK\$'m	Property revaluation reserve HK\$'m	Available-for-sale investment revaluation reserve HK\$'m	Exchange equalisation reserve HK\$'m	Retained profits HK\$'m	Total HK\$'m	Perpetual securities HK\$'m	Non-controlling interests HK\$'m	
At 31st December, 2017	89.9	404.7	17.7	15.8	8.1	58.6	(11.3)	12,063.4	12,646.9	1,732.9	942.5	15,322.3
Effect of adoption of HKFRS 9	-	-	-	-	-	(58.6)	-	58.6	-	-	-	-
At 1st January, 2018 (restated)	89.9	404.7	17.7	15.8	8.1	-	(11.3)	12,122.0	12,646.9	1,732.9	942.5	15,322.3
Profit for the year	-	-	-	-	-	-	-	547.7	547.7	-	19.1	566.8
Other comprehensive loss for the year:	-	-	-	-	-	-	-	-	(15.9)	-	-	(15.9)
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	-	-	-	-	-
Share of other comprehensive loss of:	-	-	-	-	-	-	-	-	-	-	-	-
A joint venture	-	-	-	(8.5)	-	-	-	(45.8)	(54.3)	-	-	(54.3)
An associate	-	-	-	-	-	-	-	(0.1)	(0.1)	-	-	(0.1)
Total comprehensive income/(loss) for the year	-	-	-	(8.5)	-	-	(61.8)	547.7	477.4	-	19.1	496.5
Elimination of reciprocal interests	-	-	-	-	-	-	-	1.5	1.5	-	-	1.5
Final 2017 dividend declared	-	-	-	-	-	-	-	(103.4)	(103.4)	-	(58.8)	(162.2)
Interim 2018 dividend	-	-	-	-	-	-	-	(44.9)	(44.9)	-	(61.2)	(106.1)
Disposal of interests in a subsidiary	-	-	-	-	-	-	-	1.4	1.4	-	0.6	2.0
Distribution relating to perpetual securities	-	-	-	-	-	-	-	(114.8)	(114.8)	-	-	(114.8)
Contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	6.2	6.2
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(9.8)	(9.8)
At 31st December, 2018	89.9	404.7	17.7	7.3	8.1	-	(73.1)	12,409.5	12,864.1	1,732.9	838.6	15,435.6

Consolidated Statement of Cash Flows

For the year ended 31st December, 2018

	Notes	2018 HK\$'million	2017 HK\$'million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		607.6	1,085.7
Adjustments for:			
Finance costs	7	381.4	368.6
Share of profits and losses of joint ventures and associates		(174.5)	(143.1)
Interest income	5	(337.9)	(201.2)
Depreciation	6	512.9	503.5
Dividend income from listed investments	5	(12.8)	(9.3)
Dividend income from unlisted investments		(6.0)	(3.7)
Fair value gains on financial assets at fair value through profit or loss, net		(75.5)	(376.4)
Fair value gains on investment properties, net		(5.6)	(53.9)
Unrealised interest income from a joint venture		15.8	21.4
Loss/(gain) on disposal of items of property, plant and equipment, net	5	1.2	(40.1)
Impairment loss on items of property, plant and equipment	6	–	50.5
Impairment of trade debtors	6	2.9	0.1
Write-off of other receivables	6	0.2	–
Write-off of items of property, plant and equipment	6	1.2	–
		910.9	1,202.1
Additions to properties under development		(135.1)	(762.8)
Decrease in inventories		1.1	4.1
Decrease in properties held for sale		8.4	33.1
Decrease in aircraft held for sale		70.9	–
Decrease/(increase) in debtors, deposits and prepayments		(34.7)	39.3
Receipt from finance lease receivables		37.2	36.6
Decrease in restricted cash		–	0.1
Increase in financial assets at fair value through profit or loss		(641.3)	(732.7)
Decrease/(increase) in derivative financial instruments		(3.0)	7.1
Decrease in creditors, deposits received and accruals		(25.4)	(67.1)
Decrease in contract liabilities		(9.8)	–
		179.2	(240.2)
Cash generated from/(used in) operations		179.2	(240.2)
Interest received		86.1	38.6
Interest received from finance leases		1.9	4.8
Dividends received from listed investments		12.8	9.3
Hong Kong profits tax paid		(60.9)	(130.6)
Overseas taxes paid		(1.5)	(1.0)
		217.6	(319.1)
Net cash flows from/(used in) operating activities		217.6	(319.1)

Consolidated Statement of Cash Flows (Cont'd)

For the year ended 31st December, 2018

	Notes	2018 HK\$'million	2017 HK\$'million
Net cash flows from/(used in) operating activities		217.6	(319.1)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to investment properties		(2.7)	(4.1)
Purchases of items of property, plant and equipment		(456.0)	(3,812.2)
Proceeds from disposal of items of property, plant and equipment		6.3	91.2
Deposits paid for purchases of items of property, plant and equipment		–	(6.6)
Purchases of financial assets at fair value through profit or loss		(255.9)	–
Purchases of available-for-sale investments		–	(33.8)
Purchases of financial assets at amortised cost		(1,116.5)	–
Purchases of held-to-maturity investments		–	(2,629.2)
Proceeds from redemption of financial assets at amortised cost		803.2	–
Proceeds from redemption of held-to-maturity investments		–	2,928.0
Advances to joint ventures		(1,009.9)	(966.1)
Repayment from a joint venture		705.7	1,286.0
Advances to associates		(0.4)	(13.6)
Repayment from an associate		–	18.9
Interest received		134.3	170.7
Dividends received from unlisted investments		5.9	3.7
Decrease/(increase) in pledged time deposits and bank balances		526.4	(285.3)
Increase in restricted cash		(0.8)	(4.3)
Decrease/(increase) in other loan		(207.3)	728.0
Increase in time deposits with an original maturity of more than three months		(10.0)	–
Net cash flows used in investing activities		(877.7)	(2,528.7)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase and cancellation of ordinary shares		–	(117.1)
Decrease in other borrowings		(1,952.3)	(2,301.0)
Drawdown of new bank loans		5,343.1	3,845.4
Repayment of bank loans		(2,954.5)	(474.5)
Interest paid		(405.6)	(408.4)
Payment of loan and other costs		(47.0)	(35.7)
Dividends paid		(148.1)	(122.8)
Dividends paid to non-controlling interests		(120.1)	(127.5)
Distribution to non-controlling interests		(9.8)	–
Contribution from non-controlling interests		6.2	–
Proceeds from disposal of interests in a subsidiary		2.0	–
Distribution relating to perpetual securities		(114.8)	(57.0)
Issue of perpetual securities, net of issue expenses		–	1,734.2
Net cash flows from/(used in) financing activities		(400.9)	1,935.6
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,061.0)	(912.2)
Cash and cash equivalents at beginning of year		2,839.8	3,700.7
Effect of foreign exchange rate changes, net		(6.5)	51.3
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,772.3	2,839.8
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalent as stated in the consolidated statement of financial position	38(a)	1,782.3	2,839.8
Non-pledged time deposit with an original maturity of more than three months when acquired	38(a)	(10.0)	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		1,772.3	2,839.8

Notes to Financial Statements

1. CORPORATE AND GROUP INFORMATION

Regal Hotels International Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company is located at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in hotel operations and management, hotel ownership through its listed subsidiary, Regal Real Estate Investment Trust (“Regal REIT”), asset management of Regal REIT, property development and investment, aircraft ownership and leasing business, and other investments including financial assets investments.

In the opinion of the Directors, the parent and the ultimate holding company of the Group is Century City International Holdings Limited (“CCIHL”), which was incorporated in Bermuda and is listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital/ issued units	Percentage of equity interest attributable to the Company		Principal activities
			2018	2017	
Alpha Season Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Ascent Human Resources Holdings Limited	Hong Kong	HK\$2	100	100	Provision of housekeeping services
Camomile Investments Limited	Hong Kong	HK\$2	100	100	Property investment
Capital Charm Holdings Limited	Hong Kong	HK\$1	100	100	Property development
Cheerview Limited	Hong Kong	HK\$1	100	100	Food and beverage operations
Chest Gain Development Limited	Hong Kong	HK\$10,000	100	100	Property development and investment, and investment holding
Clear Gain Investments Limited	Hong Kong	HK\$1	100	100	Property development
Come On Investment Company Limited	Hong Kong	HK\$10,000	100	100	Securities trading and investment

Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital/ issued units	Percentage of equity interest attributable to the Company		Principal activities
			2018	2017	
Complete Success Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Eminent Idea Holdings Limited	Hong Kong	HK\$1	100	100	Property investment
Eminent Result Limited	British Virgin Islands	US\$1	100	100	Investment holding
Favour Link International Limited	Hong Kong	HK\$1	100	100	Hotel operations
Favourite Stock Limited	British Virgin Islands	US\$1	100	100	Securities investment
Forever Venus Limited	British Virgin Islands	US\$1	100	–	Investment holding
Fortune Build Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Fortune Trove Limited	Hong Kong	HK\$1	100	100	Property investment
Frequentspirit Investimentos Imobiliários Unipessoal Lda.	Portugal	EUR100	90	–	Property development
Full Leader Development Limited	Hong Kong	HK\$1	100	100	Property development
Gallant Glory Limited	British Virgin Islands	US\$1	100	–	Investment holding
Gaud Limited	Hong Kong	HK\$2	100	100	Securities trading and investment
Gestiones E Inversiones Cosmoland, S.L.	Spain	EUR3,000	100	100	Hotel ownership and operations
Golden Vessel Investments Limited	Hong Kong	HK\$1	100	100	Property investment
Grand Pyramid Limited	Hong Kong	HK\$1	100	100	Property investment

Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital/ issued units	Percentage of equity interest attributable to the Company		Principal activities
			2018	2017	
Great Prestige Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Greatlead Investments Limited	Hong Kong	HK\$1	100	100	Property investment
Harvest Charm Investment Limited	Hong Kong	HK\$2	100	100	Financing
Hill Treasure Limited	British Virgin Islands	US\$1	100	100	Aircraft ownership and leasing
Honormate Nominees Limited	Hong Kong	HK\$2	100	100	Securities investment and nominee services
Honrich Investment Limited	Hong Kong	HK\$2	100	100	Financing
Impressive Galaxy Limited	British Virgin Islands	US\$1	100	–	Investment holding
Intellect Aquarius Limited	British Virgin Islands	US\$1	100	–	Investment holding
Jubilee Ace Holdings Limited	Hong Kong	HK\$1	100	100	Property investment
Kaybro Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Loraine Developments, S.L.	Spain	EUR3,000	100	100	Hotel ownership
Maximum Good Limited	Hong Kong	HK\$1	100	100	Property investment
Metropolitan Central Kitchen Limited	Hong Kong	HK\$1	100	100	Food and beverage operations
Metropolitan F&B Management Limited	Hong Kong	HK\$1	100	100	Provision of management services for food and beverage operations
Metropolitan Umami (Tsim Sha Tsui East) Limited	Hong Kong	HK\$1	100	100	Food and beverage operations
Million Sharp International Limited	Hong Kong	HK\$1	100	100	Property investment

Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital/ issued units	Percentage of equity interest attributable to the Company		Principal activities
			2018	2017	
New Blossom International Limited	British Virgin Islands	US\$1	100	100	Investment holding
PBL0781 Limited	Gibraltar	GBP2,000	100	100	Aircraft ownership and leasing
PBL1017 Limited	Gibraltar	GBP2,000	85	85	Aircraft ownership and leasing
Rainbow Petal Limited	British Virgin Islands	US\$1	100	–	Investment holding
Regal Concord Limited	Hong Kong	HK\$1	100	100	Investment holding and financing
Regal Contracting Agency Limited	Hong Kong	HK\$1	100	100	Contracting agency
Regal Estate Agents Limited	Hong Kong	HK\$2	100	100	Estate agency
Regal Estate Management Limited	Hong Kong	HK\$2	100	100	Estate management
Regal F&B Management Limited	Hong Kong	HK\$1	100	100	Provision of management services for food and beverage operations
Regal F&B (ROH) Limited	Hong Kong	HK\$1	100	100	Food and beverage operations
Regal F&B (RRH) Limited	Hong Kong	HK\$1	100	100	Food and beverage operations
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	100	100	Investment holding and management services
Regal Hotels Company Limited	Hong Kong	HK\$2	100	100	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	100	100	Hotel management and investment holding

Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital/ issued units	Percentage of equity interest attributable to the Company		Principal activities
			2018	2017	
Regal Hotels Management (BVI) Limited	British Virgin Islands/ Mainland China	US\$1	100	100	Investment holding and hotel management
Regal International Limited	British Virgin Islands	US\$20	100	100	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	100	100	Investment holding
Regal Portfolio Management Limited	Hong Kong	HK\$11,611,937	100	100	Asset management
Regal Quality Foods Limited	Hong Kong	HK\$2	100	100	Sale of food products
RH International Finance Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Financing
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	100	100	Trademark holding
Rich Capital Investment Limited	Hong Kong	HK\$100	100	100	Property development
Solution Key Investments Limited	Hong Kong	HK\$1	100	100	Property investment
Speedy Track Limited	Hong Kong	HK\$1	100	100	Property investment
Success Path Investments Limited	Hong Kong	HK\$1	100	100	Property investment
Swift Lion Investments Limited	British Virgin Islands	US\$1	100	100	Aircraft ownership and leasing
Tenshine Limited	Hong Kong	HK\$2	100	100	Securities trading and investment and financing
Top Esteem Investments Limited	British Virgin Islands	US\$1	100	100	Aircraft ownership and leasing
Total Blessing Limited	British Virgin Islands	US\$1	100	100	Investment holding

Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital/ issued units	Percentage of equity interest attributable to the Company		Principal activities
			2018	2017	
Total Wisdom Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Treasure Dealer Limited	Hong Kong	HK\$1	100	100	Property investment
Treasure Wagon Company Limited	Hong Kong	HK\$2	100	100	Operation of security storage lounge
Triumphant Sky Investments Limited	British Virgin Islands	US\$1	100	100	Aircraft ownership and leasing
Unicorn Star Limited	British Virgin Islands	US\$1	100	100	Securities investment
Unique Sky Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Vast Charm International Limited	Hong Kong	HK\$1	100	100	Property investment
Vivid Merit Limited	British Virgin Islands	US\$1	100	–	Investment holding
Wealth Virtue Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Wealthy Path Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Wealthy Smart Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Wing Bright Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Will Smart Investments Limited	Hong Kong	HK\$1	100	100	Property investment
Yuanman Enterprise Limited ⁽³⁾	Hong Kong	HK\$1	–	100	Property investment
廣州市富堡訂房服務有限公司 ⁽¹⁾	The People's Republic of China ("PRC")/ Mainland China	RMB100,000	100	100	Room reservation services
富豪酒店投資管理(上海)有限公司 ⁽¹⁾	PRC/ Mainland China	US\$140,000	100	100	Hotel management

Notes to Financial Statements (Cont'd)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital/ issued units	Percentage of equity interest attributable to the Company		Principal activities
			2018	2017	
Regal Real Estate Investment Trust	Hong Kong	3,257,431,189 units	74.58	74.58	Property investment
Bauhinia Hotels Limited ⁽²⁾	Hong Kong	HK\$2	74.58	74.58	Hotel ownership
Cityability Limited ⁽²⁾	Hong Kong	HK\$10,000	74.58	74.58	Hotel ownership
Gala Hotels Limited ⁽²⁾	Hong Kong	HK\$2	74.58	74.58	Hotel ownership
Land Crown International Limited ⁽²⁾	Hong Kong	HK\$1	74.58	74.58	Hotel ownership
Regal Asset Holdings Limited ⁽²⁾	Bermuda/ Hong Kong	US\$12,000	74.58	74.58	Investment holding
Regal Riverside Hotel Limited ⁽²⁾	Hong Kong	HK\$2	74.58	74.58	Hotel ownership
Rich Day Investments Limited ⁽²⁾	Hong Kong	HK\$1	74.58	74.58	Financing
Ricobem Limited ⁽²⁾	Hong Kong	HK\$100,000	74.58	74.58	Hotel ownership
Sonnix Limited ⁽²⁾	Hong Kong	HK\$2	74.58	74.58	Property ownership and hotel operations
R-REIT International Finance Limited ⁽²⁾	British Virgin Islands	US\$1	74.58	74.58	Financing
Tristan Limited ⁽²⁾	Hong Kong	HK\$20	74.58	74.58	Hotel ownership
Wise Decade Investments Limited ⁽²⁾	Hong Kong	HK\$1	74.58	74.58	Hotel ownership

Notes:

⁽¹⁾ These subsidiaries are registered as wholly foreign owned enterprises under PRC law.

⁽²⁾ These companies are subsidiaries of Regal REIT.

⁽³⁾ This subsidiary was disposed of during the year.

Except for Regal International (BVI) Holdings Limited, all principal subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements 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 ("HKICPA"), 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, financial assets at fair value through profit or loss and derivative financial instruments, which have been measured at fair value. Aircraft held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31st December, 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on the Group's consolidated financial statements.

Impact of HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1st January, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1st January, 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the consolidated statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

Notes to Financial Statements (Cont'd)

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1st January, 2018 is as follows:

	Notes	HKAS 39 measurement Category	Amount HK\$'million	Re- classification HK\$'million	ECL HK\$'million	HKFRS 9 measurement Amount HK\$'million	Category
Financial assets							
Other loan		L&R ¹	1,122.0	-	-	1,122.0	AC ²
Trade debtors	(i)	L&R ¹	140.3	-	-	140.3	AC ²
Other financial assets included in debtors, deposits and prepayments		L&R ¹	114.6	-	-	114.6	AC ²
Finance lease receivables		L&R ¹	37.1	-	-	37.1	AC ²
Financial assets at fair value through profit or loss		FVPL ³	2,032.4	294.1	-	2,326.5	FVPL ³
From: Available-for-sale investments	(ii)			294.1	-		
Available-for-sale investments		AFS ⁴	294.1	(294.1)	-	-	N/A
To: Financial assets at fair value through profit or loss	(ii)			(294.1)	-		
Held-to-maturity investments		HTM ⁵	167.9	(167.9)	-	-	N/A
To: Financial assets at amortised cost	(iii)			(167.9)	-		
Financial assets at amortised cost		N/A	-	167.9	-	167.9	AC ²
From: Held-to-maturity investments	(iii)			167.9	-		
Restricted cash		L&R ¹	67.7	-	-	67.7	AC ²
Pledged time deposits and bank balances		L&R ¹	550.4	-	-	550.4	AC ²
Time deposits		L&R ¹	1,681.4	-	-	1,681.4	AC ²
Cash and bank balances		L&R ¹	1,158.4	-	-	1,158.4	AC ²
			<u>7,366.3</u>	<u>-</u>	<u>-</u>	<u>7,366.3</u>	
Financial liabilities							
Trade creditors		AC ²	76.1	-	-	76.1	AC ²
Other financial liabilities included in creditors, deposits received and accruals		AC ²	362.1	-	-	362.1	AC ²
Amount due to a joint venture		AC ²	22.8	-	-	22.8	AC ²
Amount due to an associate		AC ²	17.7	-	-	17.7	AC ²
Derivative financial instruments		FVPL ³	3.0	-	-	3.0	FVPL ³
Interest bearing bank borrowings		AC ²	9,723.6	-	-	9,723.6	AC ²
Other borrowings		AC ²	4,659.5	-	-	4,659.5	AC ²
			<u>14,864.8</u>	<u>-</u>	<u>-</u>	<u>14,864.8</u>	

¹ L&R: Loans and receivables

² AC: Financial assets or financial liabilities at amortised cost

³ FVPL: Financial assets or financial liabilities at fair value through profit or loss

⁴ AFS: Available-for-sale investments

⁵ HTM: Held-to-maturity investments

Notes:

- (i) The gross carrying amount of the trade debtors under the column "HKAS 39 measurement – Amount" represents the amount after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs.
- (ii) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets at fair value through profit or loss as these investments did not pass the contractual cash flow characteristics test in HKFRS 9.
- (iii) The Group has classified its unlisted investments previously classified as held-to-maturity investments as financial assets at amortised cost as the Group intends to hold these assets to maturity to collect the contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Impairment

Upon adoption of the impairment requirements of HKFRS 9, there are no significant differences between the Group's aggregate opening balance of impairment allowances under HKAS 39 and the ECL allowances under HKFRS 9.

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits HK\$'million
<u>Available-for-sale investment revaluation reserve under HKAS 39</u>	
Balance as at 31st December, 2017 under HKAS 39	58.6
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	(58.6)
Balance as at 1st January, 2018 under HKFRS 9	<u>–</u>
<u>Retained profits</u>	
Balance as at 31st December, 2017 under HKAS 39	12,063.4
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	58.6
Balance as at 1st January, 2018 under HKFRS 9	<u>12,122.0</u>

Impact of HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that were not completed as at 1st January, 2018.

The adoption of HKFRS 15 has had no significant impact on the opening balance of retained profits as at 1st January, 2018. The comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1st January, 2018 as a result of the adoption of HKFRS 15:

	Notes	Increase/ (decrease) HK\$'million
Liabilities		
Creditors, deposits received and accruals	(i), (ii)	(52.4)
Contract liabilities	(i), (ii)	52.4
		<hr/>
Total		–
		<hr/> <hr/>

Set out below are the amounts by which each financial statement line item was affected as at 31st December, 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no significant impact on the consolidated statement of profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of financial position as at 31st December, 2018:

	Notes	Amounts prepared under		Increase/ (decrease) HK\$'million
		HKFRS 15 HK\$'million	Previous HKFRSs HK\$'million	
Creditors, deposits received and accruals	(i), (ii)	425.8	468.4	(42.6)
Contract liabilities	(i), (ii)	42.6	–	42.6
Total		<u>468.4</u>	<u>468.4</u>	<u>–</u>

The nature of the adjustments as at 1st January, 2018 and the reasons for the significant changes in the consolidated statement of financial position as at 31st December, 2018 is described below:

(i) Loyalty points programmes

The Group's hotel operation segment operates loyalty points programmes which allow customers to accumulate points when they patronise the Group's hotels. The points can be redeemed for future spending in the hotels or other gifts. The Group concluded that under HKFRS 15, the loyalty points programmes give rise to a separate performance obligation because they provide a material right to the customers. The Group determined that the impacts upon the adoption of HKFRS 15 were not significant and thus, no adjustment was made to the opening balance of retained profits at 1st January, 2018. In addition, deferred income arising from the loyalty points programmes were reclassified from creditors, deposits received and accruals to contract liabilities as at 1st January, 2018.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as creditors, deposits received and accruals. Under HKFRS 15, the amount is classified as contract liabilities.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ²
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 16	<i>Leases</i> ¹
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ²
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ¹
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1st January, 2019

² Effective for annual periods beginning on or after 1st January, 2020

³ Effective for annual periods beginning on or after 1st January, 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Of those standards, HKFRS 16 will be applicable for the Group's financial year ending 31st December, 2019 and is expected to have certain impacts upon adoption. Whilst management has performed an assessment of the estimated impacts of the standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17.

Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1st January, 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1st January, 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. As disclosed in note 42(b) to the financial statements, at 31st December, 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK\$28.3 million. Upon adoption of HKFRS 16, certain amount included herein will need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new right-of-use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen and new leases entered into before the date of adoption.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31st December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

(b) Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of profit or loss.

(c) Fair value measurement

The Group measures its investment properties, derivative financial instruments and certain investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(d) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, properties held for sale, deferred tax assets, financial assets, investment properties and aircraft held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

(e) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress and properties under construction, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Hotel land (excluding freehold land)	Over the lease terms
Hotel buildings	Over the shorter of 40 years and the remaining lease terms
Leasehold properties	Over the shorter of 40 years and the remaining lease terms
Leasehold improvements	Over the shorter of the remaining lease terms and 10% to 20%
Furniture, fixtures and equipment	10% to 25%
Motor vehicles	25%
Aircraft	Over the remaining lease terms

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Properties under construction are stated at cost less any impairment losses and are not depreciated. Cost comprises land costs, direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Properties under construction are reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(f) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

(g) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated.

(h) Investments and other financial assets (policies under HKFRS 9 applicable from 1st January, 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade debtors that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade debtors that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1st January, 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

(i) Investments and other financial assets (policies under HKAS 39 applicable before 1st January, 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and held-to-maturity investments as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1st January, 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in the statement of profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in the statement of profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss. Dividends earned whilst holding the available-for-sale financial investments are reported as dividend income and are recognised in the statement of profit or loss as other income in accordance with the policy set out for "Revenue recognition (applicable before 1st January, 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

(j) Impairment of financial assets (policies under HKFRS 9 applicable from 1st January, 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade debtors which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade debtors that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(k) Impairment of financial assets (policies under HKAS 39 applicable before 1st January, 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

(l) Derecognition of financial assets (policies under HKFRS 9 applicable from 1st January, 2018 and policies under HKAS 39 applicable before 1st January, 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(m) Financial liabilities (policies under HKFRS 9 applicable from 1st January, 2018 and policies under HKAS 39 applicable before 1st January, 2018)*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1st January, 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1st January, 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Loans and borrowings and payables

After initial recognition, interest bearing loans and borrowings and payables are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts (policies under HKFRS 9 applicable from 1st January, 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1st January, 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under HKAS 39 applicable before 1st January, 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

(n) Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1st January, 2018 and policies under HKAS 39 applicable before 1st January, 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

(o) Offsetting of financial instruments (policies under HKFRS 9 applicable from 1st January, 2018 and policies under HKAS 39 applicable before 1st January, 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(p) Derivative financial instruments (policies under HKFRS 9 applicable from 1st January, 2018 and policies under HKAS 39 applicable before 1st January, 2018)

Initial recognition and subsequent measurement

The Group purchased derivative financial instruments such as foreign currency forward contracts and put options in relation to financial assets for trading purpose. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

(q) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs expected to be incurred to disposal.

(r) Properties held for sale

Properties held for sale are classified as current assets and stated at the lower of cost and net realisable value on an individual property basis. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices.

(s) Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, direct costs of construction, applicable borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to properties held for sale.

(t) Revenue recognition (applicable from 1st January, 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Hotel and other agency and management services

Revenue from the provision of hotel and other agency and management services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Loyalty points programmes

The Group's hotel operation segment operates loyalty points programmes which allow customers to accumulate points when they patronise the Group's hotels. The points can be redeemed for future spending in the hotels or other gifts. The Group concluded that under HKFRS 15, the loyalty points programmes give rise to a separate performance obligation because they provide a material right to the customers. Contract liabilities are recognised on the loyalty points programmes.

(ii) Sale of properties/aircraft

Revenue from the sale of properties/aircraft is recognised at the point in time when the control of the assets is transferred to the buyer, generally on the delivery of the properties/aircraft.

(iii) Revenue from other operations

- Revenue from the sale of food products is recognised at the point in time when the control of the assets is transferred to the buyer, generally on the delivery of the food products.
- Revenue from restaurant operation is recognised at the point in time when the control of the assets is transferred to the customer, generally upon consumption of the food and beverage items by the customer.
- Revenue from housekeeping services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Net gain or loss from the sale of investments at fair value through profit or loss is recognised on the transaction dates when the relevant contract notes are exchanged.

Other income

Income from maintenance reserves released is recognised when the Group's obligation to make any further reimbursements in relation to the aircraft maintenance is extinguished.

Income from reimbursement of lease payments is recognised when the right to receive payment has been established.

(u) Revenue recognition (applicable before 1st January, 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) hotel and other agency and management services income, in the period in which such services are rendered;
- (ii) income from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the properties sold;
- (iii) rental income, in the period in which the properties/aircraft are let and on the straight-line basis over the lease terms;
- (iv) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (v) dividend income, when the shareholders' right to receive payment has been established;
- (vi) net gain or loss from the sale of investments at fair value through profit or loss, on the transaction dates when the relevant contract notes are exchanged;
- (vii) income from the sale of food products, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the food products sold;
- (viii) income from maintenance reserves released, when the Group's obligation to make any further reimbursements in relation to the aircraft maintenance is extinguished; and
- (ix) income from reimbursement of lease payments, when the right to receive payment has been established.

(v) Contract liabilities (applicable from 1st January, 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(w) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange equalisation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(x) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries/ jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(y) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Finance leases, which transfer to the lessee substantially all the rewards and risks incidental to ownership of a leased item, are capitalised at the inception of the lease at fair value of the leased item, or if lower, at the present value of the minimum lease payments. Lease payments receivable are apportioned between the finance income and reduction in the investment in finance leases so as to achieve a constant rate of interest on the remaining balance of the net investment in finance leases. Finance income is credited to the statement of profit or loss.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(z) Employee benefits

Staff retirement schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, part or all of which are refunded to the Group when the employee leaves employment prior to the contributions vesting with the employee partly or fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the relevant central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

(aa) Related parties

A party is considered to be related to the Group if:

- (i) the party is a person or a close member of that person's family and that person
 - (1) has control or joint control over the Group;
 - (2) has significant influence over the Group; or
 - (3) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (ii) the party is an entity where any of the following conditions applies:
 - (1) the entity and the Group are members of the same group;
 - (2) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (3) the entity and the Group are joint ventures of the same third party;
 - (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (6) the entity is controlled or jointly controlled by a person identified in (i);
 - (7) a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (8) the entity, or any member of a group which it is a part, provides key management personnel services to the Group or to the parent of the Group.

(ab) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(ac) Borrowing costs

Borrowing costs directly attributable to the acquisition and construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Interest is capitalised at the interest rates related to specific development project borrowings. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed generally and used for the purpose of obtaining qualifying assets, a capitalisation rate of 4.0% has been applied to the expenditure on the individual assets.

(ad) Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to financial statements.

Interim dividend is simultaneously proposed and declared, because the Company's memorandum of association and bye-laws grant the Directors the authority to declare interim dividend. Consequently, interim dividend is recognised immediately as a liability when it is proposed and declared.

(ae) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

(af) Perpetual securities

Perpetual securities with no contracted obligation to repay its principal or to pay any distribution are classified as part of equity.

(ag) Maintenance reserves

The cost of aircraft maintenance, repairs, overhauls and compliance with return conditions for aircraft on operating leases are paid for by the lessee. For major airframe, engine and other maintenance events, the lessee will be required to make a maintenance contribution payment to the lessor. Certain lease agreements require the lessee to make the maintenance contribution payments on a monthly basis while other leases require the lessee to make the maintenance contribution payment in the form of a return compensation payment at the end of the lease. Upon receipt by the Group, these monthly and end of lease maintenance payments are accounted for as maintenance reserve liabilities because the Group generally reimburses the lessee or a subsequent lessee out of the payments the Group received when the Group is satisfied that the qualifying major maintenance event has been performed. At termination or expiry of a lease, maintenance reserve liabilities for the aircraft which have not been reimbursed to the lessee will typically continue to remain as maintenance reserve liabilities. Any shortfall that is identified in the maintenance reserve liabilities for an aircraft as compared to the expected future reimbursement obligations to a lessee, or any surplus, will be charged or released to the statement of profit or loss. Upon sale of an aircraft, the maintenance reserve liability for that aircraft which is not transferred to the buyer will be released to the statement of profit or loss.

If a lease requires the lessee to pay return compensation payments at the end of the lease, certain lessees are required to secure all or a portion of that obligation by a cash deposit or letter of credit. In some cases, the monthly maintenance payments or end of lease return compensation payments may be replaced by commitments from a third party, typically the original equipment manufacturer or an affiliate, which provides flight hour-based support to the lessee.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(a) Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - Group as lessor

The Group has entered into commercial property/aircraft leases on its property/aircraft portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties/aircraft which are leased out on operating leases.

The Group has also entered into certain aircraft leases whereby the Group has determined that it has transferred substantially all the risks and rewards incidental to ownership of the leased aircraft to the lessees based on an evaluation of the terms and conditions of the arrangements. Accordingly, the Group has derecognised these aircraft and has recognised finance lease receivables on its consolidated statement of financial position. Otherwise, the Group classifies the aircraft under operating lease arrangements as property, plant and equipment.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Income taxes

The Group has exposure to income taxes in different jurisdictions. Significant judgement is involved in determining the provision for income taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation, interpretations and practices in respect thereof.

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31st December, 2018 was HK\$1,147.2 million (2017 - HK\$1,144.7 million). Further details, including the key assumptions used for fair value measurement is given in note 14 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the carryforward of unused tax losses can be utilised. Recognition of deferred tax assets primarily involves judgements and estimations regarding the future performance of the Group. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portions or all of the deferred tax assets will ultimately be realised, such as tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amounts of deferred tax assets and related taxable profit projections are reviewed at the end of each reporting period. The carrying value of gross deferred tax assets relating to recognised tax losses at 31st December, 2018 was HK\$52.7 million (2017 - HK\$64.7 million). The amount of unrecognised deferred tax assets in respect of tax losses at 31st December, 2018 was HK\$505.5 million (2017 - HK\$498.7 million). Further details are contained in note 33 to the financial statements.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. During the year ended 31st December, 2017, an impairment loss of HK\$50.5 million has been recognised for property, plant and equipment as further explained in note 13 to the financial statements. The carrying amount of property, plant and equipment was HK\$18,529.9 million (2017 - HK\$18,566.9 million).

Provision for expected credit losses on trade debtors

The Group uses a provision matrix to calculate ECLs for trade debtors. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., GDP) are expected to deteriorate over the next year which can lead to an increased number of defaults in the hotel sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade debtors is disclosed in note 22 to the financial statements.

Depreciation of property, plant and equipment – aircraft

Aircraft are depreciated on the straight-line basis at rates which are calculated to write down the costs to their estimated residual values at the end of their operational lives. Certain estimates regarding the operational lives and residual values of the aircraft are made by the Group based on industry practice and internal technical valuation. The operational life and residual value are reviewed at least on an annual basis. The carrying amount of the Group's aircraft as at 31st December, 2018 was HK\$405.7 million (2017 - HK\$207.0 million).

4. 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;
- (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 and interest income; and
- (f) the others segment mainly comprises travel agency services, the sale of food products, operation and management of restaurants, 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 resource 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, 2018 and 2017:

	Hotel operation and management and hotel ownership															
	Hotel operation and management and hotel ownership		Asset management		Property development and investment		Financial assets investments		Aircraft ownership and leasing		Others		Eliminations		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Segment revenue (Note 5)																
Sales to external customers	2,377.9	2,274.3	-	-	28.7	122.7	71.5	103.6	119.1	39.7	16.9	20.3	-	-	2,614.1	2,560.6
Intersegment sales	7.1	8.2	114.1	119.9	4.9	4.9	-	-	-	-	103.1	76.2	(229.2)	(209.2)	-	-
Total	2,385.0	2,282.5	114.1	119.9	33.6	127.6	71.5	103.6	119.1	39.7	120.0	96.5	(229.2)	(209.2)	2,614.1	2,560.6
Segment results before depreciation	995.4	1,120.2	(13.1)	(13.3)	211.5	244.6	155.8	494.1	61.9	31.8	(2.6)	(1.7)	-	-	1,408.9	1,875.7
Depreciation	(484.6)	(470.3)	(0.4)	(0.4)	(5.8)	(6.0)	-	-	(18.2)	(22.4)	(3.9)	(4.4)	-	-	(512.9)	(503.5)
Segment operating results	510.8	649.9	(13.5)	(13.7)	205.7	238.6	155.8	494.1	43.7	9.4	(6.5)	(6.1)	-	-	896.0	1,372.2
Unallocated interest income and unallocated non-operating and corporate gains															30.0	34.0
Unallocated non-operating and corporate expenses, net															(111.5)	(95.0)
Operating profit															814.5	1,311.2
Finance costs															(381.4)	(368.6)
Share of profits and losses of:																
Joint ventures	-	-	-	-	174.1	146.4	-	-	-	-	-	-	-	-	174.1	146.4
Associates	-	-	-	-	0.3	15.0	-	-	-	-	0.1	(18.3)	-	-	0.4	(3.3)
Profit before tax															607.6	1,085.7
Income tax															(40.8)	(87.4)
Profit for the year before allocation between equity holders of the parent and non-controlling interests															566.8	998.3
Attributable to:																
Equity holders of the parent															547.7	982.1
Non-controlling interests															19.1	16.2
															566.8	998.3

Notes to Financial Statements (Cont'd)

	Hotel operation and management and hotel ownership		Asset management		Property development and investment		Financial assets investments		Aircraft ownership and leasing		Others		Eliminations		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment assets	18,469.7	18,690.8	51.0	52.1	3,498.1	3,165.2	3,839.0	2,524.8	414.6	277.3	23.8	16.7	(50.5)	26,244.9	24,676.4	
Investments in joint ventures	-	-	-	-	3,539.9	3,030.8	-	-	-	-	-	-	-	3,539.9	3,030.8	
Investments in associates	-	-	-	-	10.5	10.2	-	-	-	-	6.0	5.6	-	16.5	15.8	
Cash and unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	1,936.6	3,525.5	
Total assets	(430.4)	(416.5)	(2.1)	(2.3)	(46.9)	(53.0)	(3.5)	(3.6)	(67.7)	(86.1)	(6.3)	(5.0)	51.3	(505.6)	(516.0)	
Segment liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Bank borrowings and unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total liabilities	-	-	-	-	(197.6)	(109.7)	(110.0)	(54.6)	(1.9)	(4.8)	-	-	-	(15,796.7)	(15,410.2)	
Other segment information:																
Interest income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reimbursement of lease payments in connection with undertakings provided by a joint venture	(21.2)	(273.4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment of trade debtors	2.6	0.1	-	-	-	-	-	-	-	-	0.3	-	-	-	-	-
Impairment loss on items of property, plant and equipment	-	-	-	-	-	-	-	-	-	50.5	-	-	-	-	-	-
Maintenance reserves released	-	-	-	-	-	-	-	-	(34.4)	(54.7)	-	-	-	-	-	-
Fair value gains on financial assets at fair value through profit or loss, net	-	-	-	-	-	-	(75.5)	(376.4)	-	-	-	-	-	-	-	-
Fair value gains on investment properties, net	(5.6)	(2.0)	-	-	-	(51.9)	-	-	-	-	-	-	-	-	-	-
Loss/(gain) on disposal of items of property, plant and equipment, net	-	0.8	-	-	-	(35.7)	-	-	1.2	(5.2)	-	-	-	-	-	-
Capital expenditure	173.9	3,692.2	-	0.3	0.1	4.2	-	-	282.1	145.4	2.8	3.2	-	(16,302.3)	(15,926.2)	

Geographical information

(a) Revenue from external customers

	2018 HK\$'million	2017 HK\$'million
Hong Kong	2,471.6	2,457.0
Mainland China	11.9	17.5
Other	130.6	86.1
	2,614.1	2,560.6

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

	2018 HK\$'million	2017 HK\$'million
Hong Kong	21,696.9	21,512.9
Mainland China	1,845.1	1,674.4
Other	589.4	333.7
	24,131.4	23,521.0

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.

Notes to Financial Statements (Cont'd)

5. REVENUE, OTHER INCOME AND GAIN, NET

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

	2018 HK\$'million	2017 HK\$'million
<u>Revenue</u>		
<i>Revenue from contracts with customers</i>		
Hotel operations and management services	2,312.8	2,223.8
Sale of properties	15.0	110.0
Sale of aircraft	80.4	–
Other operations	17.0	19.3
<i>Revenue from other sources</i>		
Rental income:		
Hotel properties	48.2	41.8
Investment properties	23.7	16.6
Aircraft	36.8	34.9
Others	2.6	2.6
Gain/(loss) from sale of financial assets at fair value through profit or loss, net	(34.8)	40.5
Gain/(loss) on settlement of derivative financial instruments, net	(6.4)	12.0
Interest income from financial assets at fair value through profit or loss	99.9	41.8
Interest income from finance leases	1.9	4.8
Dividend income from listed investments	12.8	9.3
Other operations	4.2	3.2
	<u>2,614.1</u>	<u>2,560.6</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers and the reconciliation with the operating segment information:

For the year ended 31st December, 2018					
Segments	Hotel operation and management and hotel ownership HK'million	Property development and investment HK'million	Aircraft ownership and leasing HK'million	Others HK'million	Total HK'million
Type of goods or services					
Hotel operations and management services					
Hotel operations	2,300.8	–	–	–	2,300.8
Management services	12.0	–	–	–	12.0
Sale of a property	–	15.0	–	–	15.0
Sale of aircraft	–	–	80.4	–	80.4
Other operations	–	4.3	–	12.7	17.0
Total revenue from contracts with customers	<u>2,312.8</u>	<u>19.3</u>	<u>80.4</u>	<u>12.7</u>	<u>2,425.2</u>
Geographical markets					
Hong Kong	2,300.8	19.3	–	12.7	2,332.8
Mainland China	12.0	–	–	–	12.0
Other	–	–	80.4	–	80.4
Total revenue from contracts with customers	<u>2,312.8</u>	<u>19.3</u>	<u>80.4</u>	<u>12.7</u>	<u>2,425.2</u>
Timing of revenue recognition					
At a point in time	627.6	15.0	80.4	10.6	733.6
Over time	1,685.2	4.3	–	2.1	1,691.6
Total revenue from contracts with customers	<u>2,312.8</u>	<u>19.3</u>	<u>80.4</u>	<u>12.7</u>	<u>2,425.2</u>

Notes to Financial Statements (Cont'd)

Set out below is the reconciliation from contracts with customers with the amounts disclosed in the segment information:

Segments	For the year ended 31st December, 2018				
	Hotel operation and management and hotel ownership HK\$'million	Property development and investment HK\$'million	Aircraft ownership and leasing HK\$'million	Others HK\$'million	Total HK\$'million
Revenue from contracts with customers					
External customers	2,312.8	19.3	80.4	12.7	2,425.2
Intersegment sales	–	–	–	103.1	103.1
	2,312.8	19.3	80.4	115.8	2,528.3
Intersegment adjustments and eliminations	–	–	–	(103.1)	(103.1)
Total revenue from contracts with customers	<u>2,312.8</u>	<u>19.3</u>	<u>80.4</u>	<u>12.7</u>	<u>2,425.2</u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 HK\$'million
Hotel operations and management services	<u>52.4</u>

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Hotel operations and management services

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services. Hotel management service contracts are for periods of one year or less, or are billed based on the time incurred.

Sales of properties/aircraft

The performance obligation is satisfied upon delivery of the properties/aircraft. Customers generally purchased and paid the customer deposit according to terms and conditions of the relevant sales and purchases agreements before delivery of the properties/aircraft. The transaction prices were adjusted to reflect the effects of the time value of money and the significant benefit of financing.

Revenue from food products

The performance obligation is satisfied upon delivery of the food products and payment is generally due within 30 to 90 days from delivery.

Revenue from restaurant operation

The performance obligation is satisfied when the customer obtains control of the promised goods, being at the point when the customer consumes the food and beverage at the restaurants. Payment of the transaction is due immediately at the point when the customer consumes the food and beverage.

Revenue from housekeeping services

The performance obligation is satisfied over time as services are rendered. Housekeeping service contracts are for periods of one year or less, or are billed based on the time incurred.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31st December, 2018 are as follows:

	HK\$'million
Within one year	<u>42.6</u>

All performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2018 HK\$'million	2017 HK\$'million
<u>Other income and gain, net</u>		
Bank interest income	28.4	31.6
Other interest income	207.7	123.0
Gain/(loss) on disposal of items of property, plant and equipment, net	(1.2)	40.1
Maintenance reserves released	34.4	54.7
Reimbursement of lease payments in connection with undertakings provided by a joint venture	21.2	273.4
Others	21.2	7.4
	<u>311.7</u>	<u>530.2</u>

Notes to Financial Statements (Cont'd)

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2018 HK\$'million	2017 HK\$'million
Cost of inventories sold and services provided	1,064.2	1,032.4
Depreciation	512.9	503.5
Foreign exchange differences, net*	23.1	4.2
Impairment of trade debtors	2.9	0.1
Write-off of other receivables	0.2	–
Write-off of items of property, plant and equipment	1.2	–
Impairment loss on items of property, plant and equipment	–	50.5
Employee benefit expense# (exclusive of directors' remuneration disclosed in note 8):		
Salaries, wages and allowances	702.1	688.6
Staff retirement scheme contributions	30.7	29.6
Less: Forfeited contributions	(1.1)	(0.8)
Net staff retirement scheme contributions	29.6	28.8
	731.7	717.4
Fair value losses/(gains) on financial assets at fair value through profit or loss, net		
– mandatorily classified as such, including those held for trading	48.0	(379.4)
– designated as such upon initial recognition	0.1	–
– derivative instruments – transactions not qualifying as hedges	27.4	3.0
	75.5	(376.4)
Minimum lease payments under operating leases	23.3	22.4
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties	7.9	2.9
Auditor's remuneration	7.2	7.9

* During the year ended 31st December, 2017, inclusive of a loss on settlement of foreign currency forward contracts of HK\$3.0 million and a net foreign exchange loss of HK\$1.2 million.

Inclusive of an amount of HK\$622.0 million (2017 - HK\$613.2 million) classified under cost of inventories sold and services provided.

7. FINANCE COSTS

	2018 HK\$'million	2017 HK\$'million
Interest on bank loans	292.6	135.7
Interest on other borrowings	134.3	269.5
Amortisation of debt establishment costs	32.7	25.6
Total interest expenses on financial liabilities not at fair value through profit or loss	459.6	430.8
Other loan costs	7.9	6.7
Less: Finance costs capitalised	467.5 (86.1)	437.5 (68.9)
	381.4	368.6

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 HK\$'million	2017 HK\$'million
Fees	3.6	3.6
Other emoluments:		
Salaries, allowances and benefits in kind	20.7	20.0
Performance related/discretionary bonuses	3.0	2.5
Staff retirement scheme contributions	1.4	1.3
	28.7	27.4

Notes to Financial Statements (Cont'd)

(a) Non-executive directors

The fees paid to non-executive directors during the year were as follows:

	2018 HK\$'million	2017 HK\$'million
Non-executive director:		
Dr. Francis Choi Chee Ming, GBS, JP	0.25	0.25
Independent non-executive directors:		
Ms. Alice Kan Lai Kuen	0.35	0.35
Professor Japhet Sebastian Law	0.25	0.25
Mr. Ng Siu Chan [#]	–	0.35
Ms. Winnie Ng, JP [*]	0.35	–
Mr. Wong Chi Keung	0.40	0.40
	<u>1.60</u>	<u>1.60</u>

[#] Mr. Ng Siu Chan resigned as an independent non-executive director of the Company with effect from 1st January, 2018.

^{*} Ms. Winnie Ng was appointed as an independent non-executive director of the Company with effect from 1st January, 2018.

- For the year ended 31st December, 2018, Directors' fees entitled by the non-executive director and the independent non-executive directors of the Company also included a fee for serving as members of the Audit Committee (HK\$0.15 million per annum and HK\$0.1 million per annum as its chairman and a member, respectively), the Nomination Committee (HK\$0.05 million per annum) and the Remuneration Committee (HK\$0.05 million per annum) of the Company, where applicable, amounting to HK\$1.60 million (2017 - HK\$1.60 million, which also included fees for serving as members of the Board Committees).

There were no other emoluments payable to the non-executive directors during the year (2017 - Nil).

(b) Executive directors

	Fees HK\$'million (Notes)	Salaries, allowances and benefits in kind HK\$'million	Performance related/ discretionary bonuses HK\$'million	Staff retirement scheme contributions HK\$'million	Total remuneration HK\$'million
2018					
Mr. Lo Yuk Sui	0.40	8.78	1.06	0.50	10.74
Miss Lo Po Man	0.30	4.13	0.37	0.17	4.97
Ms. Belinda Yeung Bik Yiu	0.15	2.76	0.62	0.28	3.81
Mr. Donald Fan Tung	0.30	1.09	0.25	0.11	1.75
Mr. Jimmy Lo Chun To	0.30	1.06	0.11	0.05	1.52
Mr. Kenneth Ng Kwai Kai	0.40	1.78	0.33	0.15	2.66
Mr. Allen Wan Tze Wai	0.15	1.16	0.24	0.12	1.67
	<u>2.00</u>	<u>20.76</u>	<u>2.98</u>	<u>1.38</u>	<u>27.12</u>
2017					
Mr. Lo Yuk Sui	0.40	8.52	0.80	0.48	10.20
Miss Lo Po Man	0.30	4.04	0.27	0.16	4.77
Ms. Belinda Yeung Bik Yiu	0.15	2.62	0.55	0.26	3.58
Mr. Donald Fan Tung	0.30	1.03	0.23	0.10	1.66
Mr. Jimmy Lo Chun To	0.30	1.03	0.09	0.05	1.47
Mr. Kenneth Ng Kwai Kai	0.40	1.69	0.30	0.14	2.53
Mr. Allen Wan Tze Wai	0.15	1.11	0.21	0.11	1.58
	<u>2.00</u>	<u>20.04</u>	<u>2.45</u>	<u>1.30</u>	<u>25.79</u>

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year (2017 - Nil).

Notes:

For the years ended 31st December, 2018 and 2017, the fees entitled by:

- Mr. Lo Yuk Sui also included (i) a fee of HK\$0.05 million per annum for serving as a member of each of the Nomination Committee and the Remuneration Committee of the Company; and (ii) a fee of HK\$0.15 million per annum for serving as a non-executive director of Regal Portfolio Management Limited ("RPML") (the manager of Regal REIT).
- Miss Lo Po Man, Mr. Donald Fan Tung and Mr. Jimmy Lo Chun To also included a fee of HK\$0.15 million per annum entitled by each of these Directors for serving as a non-executive director of RPML.
- Mr. Kenneth Ng Kwai Kai also included a fee of HK\$0.15 million per annum for serving as a non-executive director of RPML and a fee of HK\$0.1 million per annum for serving as a member of the audit committee of RPML.

Notes to Financial Statements (Cont'd)

9. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid individuals during the year included four (2017 - four) Directors, details of whose remuneration are disclosed in note 8 to the financial statements. Details of the remuneration for the year of the remaining one (2017 - one) highest paid individual, who was not a Director, are as follows:

	2018 HK\$'million	2017 HK\$'million
Salaries, allowances and benefits in kind	1.8	1.7
Performance related/discretionary bonuses	0.3	0.3
Staff retirement scheme contributions	0.1	0.1
	<u>2.2</u>	<u>2.1</u>

The emoluments of the remaining one (2017 - one) highest paid individual fell within the band of HK\$2,000,001 to HK\$2,500,000 (2017 - HK\$2,000,001 to HK\$2,500,000).

10. INCOME TAX

	2018 HK\$'million	2017 HK\$'million
Current – Hong Kong		
Charge for the year	67.6	85.1
Overprovision in prior years	–	(3.5)
Current – Overseas		
Charge for the year	1.3	1.2
Deferred (note 33)	(28.1)	4.6
	<u>40.8</u>	<u>87.4</u>
Total tax charge for the year		

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16.5% (2017 - 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.

Notes to Financial Statements (Cont'd)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

	2018 HK\$'million	2017 HK\$'million
Profit before tax	607.6	1,085.7
Tax at the Hong Kong statutory tax rate of 16.5% (2017 - 16.5%)	100.3	179.2
Adjustments in respect of current tax of previous years	–	(3.5)
Profits and losses attributable to joint ventures and associates	(28.8)	(23.6)
Higher tax rates of other jurisdictions	0.3	0.8
Income not subject to tax	(103.8)	(136.5)
Expenses not deductible for tax	61.8	55.1
Tax losses utilised from previous years	(7.9)	(12.1)
Tax losses not recognised during the year	19.1	31.3
Others	(0.2)	(3.3)
Tax charge at the Group's effective rate	40.8	87.4

The share of tax charge attributable to a joint venture and an associate amounting to HK\$58.5 million and Nil, respectively (2017 - HK\$12.3 million and HK\$1.9 million, respectively), is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

Notes to Financial Statements (Cont'd)

11. DIVIDENDS

	2018 HK\$'million	2017 HK\$'million
Interim - HK5.0 cents (2017 - HK4.5 cents) per ordinary share	44.9	40.4
Proposed final - HK14.0 cents (2017 - HK11.5 cents) per ordinary share	<u>125.8</u>	<u>103.4</u>
	<u>170.7</u>	<u>143.8</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

(a) Basic earnings per ordinary share

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\$547.7 million (2017 - HK\$982.1 million), adjusted for the distribution related to perpetual securities of HK\$114.8 million (2017 - HK\$80.5 million), and on the weighted average of 898.8 million (2017 - 907.3 million) ordinary shares of the Company in issue during the year.

(b) Diluted earnings per ordinary share

No adjustment was made to the basic earnings per ordinary share for the years ended 31st December, 2018 and 2017 as the Company had no potentially dilutive ordinary shares in issue and therefore no diluting events existed throughout the years.

13. PROPERTY, PLANT AND EQUIPMENT

	Hotel land and buildings HK\$'million	Leasehold properties HK\$'million	Property under construction HK\$'million	Leasehold improvements HK\$'million	Furniture, fixtures and equipment HK\$'million	Motor vehicles HK\$'million	Aircraft HK\$'million	Construction in progress HK\$'million	Total HK\$'million
31st December, 2018									
At 31st December, 2017 and at 1st January, 2018:									
Cost	18,181.7	185.2	2,314.7	505.1	331.6	3.0	311.6	2.5	21,835.4
Accumulated depreciation and impairment	(2,692.1)	(15.3)	-	(214.8)	(239.3)	(2.4)	(104.6)	-	(3,268.5)
Net carrying amount	<u>15,489.6</u>	<u>169.9</u>	<u>2,314.7</u>	<u>290.3</u>	<u>92.3</u>	<u>0.6</u>	<u>207.0</u>	<u>2.5</u>	<u>18,566.9</u>
At 1st January, 2018, net of accumulated depreciation and impairment	15,489.6	169.9	2,314.7	290.3	92.3	0.6	207.0	2.5	18,566.9
Additions	-	-	173.8	29.7	44.9	2.0	282.1	9.8	542.3
Reclassification	-	-	-	-	1.1	-	-	(1.1)	-
Transfer to aircraft held for sale	-	-	-	-	-	-	(58.3)	-	(58.3)
Write-off/disposals	-	-	-	(4.0)	(10.7)	(0.5)	(25.4)	-	(40.6)
Write-back of depreciation upon write-off/disposals/transfer	-	-	-	3.1	10.4	0.5	18.0	-	32.0
Depreciation provided during the year	(403.8)	(5.8)	-	(45.5)	(39.0)	(0.6)	(18.2)	-	(512.9)
Exchange realignment	-	-	-	-	-	-	0.5	-	0.5
At 31st December, 2018, net of accumulated depreciation	<u>15,085.8</u>	<u>164.1</u>	<u>2,488.5</u>	<u>273.6</u>	<u>99.0</u>	<u>2.0</u>	<u>405.7</u>	<u>11.2</u>	<u>18,529.9</u>
At 31st December, 2018:									
Cost	18,181.7	185.2	2,488.5	530.8	366.9	4.5	421.2	11.2	22,190.0
Accumulated depreciation	(3,095.9)	(21.1)	-	(257.2)	(267.9)	(2.5)	(15.5)	-	(3,660.1)
Net carrying amount	<u>15,085.8</u>	<u>164.1</u>	<u>2,488.5</u>	<u>273.6</u>	<u>99.0</u>	<u>2.0</u>	<u>405.7</u>	<u>11.2</u>	<u>18,529.9</u>

Notes to Financial Statements (Cont'd)

	Hotel land and buildings HK\$'million	Leasehold properties HK\$'million	Property under construction HK\$'million	Leasehold improvements HK\$'million	Furniture, fixtures and equipment HK\$'million	Motor vehicles HK\$'million	Aircraft HK\$'million	Construction in progress HK\$'million	Total HK\$'million
31st December, 2017									
At 1st January, 2017:									
Cost	16,875.9	190.5	-	445.9	289.5	3.2	305.3	4.4	18,114.7
Accumulated depreciation	(2,310.5)	(12.5)	-	(170.7)	(198.4)	(2.3)	(89.6)	-	(2,784.0)
Net carrying amount	<u>14,565.4</u>	<u>178.0</u>	<u>-</u>	<u>275.2</u>	<u>91.1</u>	<u>0.9</u>	<u>215.7</u>	<u>4.4</u>	<u>15,330.7</u>
At 1st January, 2017, net of accumulated									
depreciation	14,565.4	178.0	-	275.2	91.1	0.9	215.7	4.4	15,330.7
Additions	1,341.7	-	2,314.7	57.4	48.4	-	138.8	2.5	3,903.5
Reclassification	-	-	-	4.4	-	-	-	(4.4)	-
Transfer from/(to) investment properties, net	(61.0)	-	-	(2.0)	(5.7)	-	-	-	(68.7)
Transfer to aircraft held for sale	-	-	-	-	-	-	(48.5)	-	(48.5)
Write-off/disposals	-	(5.3)	-	(0.8)	(1.6)	(0.2)	(86.1)	-	(94.0)
Write-back of depreciation upon write-off/disposals/transfer	7.8	3.1	-	-	1.6	0.2	58.6	-	71.3
Depreciation provided during the year	(388.6)	(5.9)	-	(44.1)	(42.2)	(0.3)	(22.4)	-	(503.5)
Surplus on revaluation	10.6	-	-	-	-	-	-	-	10.6
Impairment	-	-	-	-	-	-	(50.5)	-	(50.5)
Exchange realignment	13.7	-	-	0.2	0.7	-	1.4	-	16.0
At 31st December, 2017, net of accumulated depreciation and impairment	<u>15,489.6</u>	<u>169.9</u>	<u>2,314.7</u>	<u>290.3</u>	<u>92.3</u>	<u>0.6</u>	<u>207.0</u>	<u>2.5</u>	<u>18,566.9</u>
At 31st December, 2017:									
Cost	18,181.7	185.2	2,314.7	505.1	331.6	3.0	311.6	2.5	21,835.4
Accumulated depreciation and impairment	(2,692.1)	(15.3)	-	(214.8)	(239.3)	(2.4)	(104.6)	-	(3,268.5)
Net carrying amount	<u>15,489.6</u>	<u>169.9</u>	<u>2,314.7</u>	<u>290.3</u>	<u>92.3</u>	<u>0.6</u>	<u>207.0</u>	<u>2.5</u>	<u>18,566.9</u>

At 31st December, 2018, the Group's property, plant and equipment with a net carrying amount of HK\$18,096.6 million (2017 - HK\$14,934.4 million) were pledged to secure banking facilities granted to the Group.

During the year ended 31st December, 2017, an impairment loss of HK\$50.5 million was recognised in the statement of profit or loss and included in the "Aircraft ownership and leasing" segment to write down the carrying amount of certain aircraft to their recoverable amount of HK\$77.9 million. The estimates of the recoverable amount were based on the fair value less costs of disposal, using market comparison approach by reference to the estimated sales value as at 31st December, 2017. The fair value on which the recoverable amount was based on is categorised as a Level 2 measurement.

During the year ended 31st December, 2018, certain aircraft with a total carrying amount of HK\$58.3 million (2017 - HK\$18.4 million) were transferred to aircraft held for sale in accordance with HKFRS 5.

14. INVESTMENT PROPERTIES

	2018 HK\$'million	2017 HK\$'million
Carrying amount at 1st January	1,144.7	1,026.0
Capital expenditure for the year	2.7	4.1
Transfer from owner-occupied properties	–	125.8
Transfer to owner-occupied property	–	(66.0)
Net gain from fair value adjustments	5.6	53.9
Exchange realignment	(5.8)	0.9
	<u>1,147.2</u>	<u>1,144.7</u>
Carrying amount at 31st December	<u>1,147.2</u>	<u>1,144.7</u>

The Directors of the Company determined the Group's investment properties into different classes of asset based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31st December, 2018 based on valuations performed by Savills Valuation and Professional Services Limited, Colliers International (Hong Kong) Limited and Colliers International Spain, three independent professionally qualified valuers, at HK\$1,147.2 million. Each year, the Group's management selects the external valuers to be appointed for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management also has discussions with the valuers on the valuation assumptions and valuation results twice a year when the valuations are performed for interim and annual financial reporting. Certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 42(a) to the financial statements.

At 31st December, 2018, the Group's investment properties with a carrying value of HK\$1,020.0 million (2017 - HK\$1,018.0 million) were pledged to secure banking facilities granted to the Group.

Further particulars of the Group's investment properties are included on pages 197 and 198.

Notes to Financial Statements (Cont'd)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31st December, 2018 using			Total HK\$'million
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	HK\$'million	HK\$'million	HK\$'million	
Residential properties	-	-	864.0	864.0
Commercial properties	-	-	156.0	156.0
Hotel properties	-	-	127.2	127.2
	-	-	1,147.2	1,147.2

	Fair value measurement as at 31st December, 2017 using			Total HK\$'million
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	HK\$'million	HK\$'million	HK\$'million	
Residential properties	-	-	864.0	864.0
Commercial properties	-	-	154.0	154.0
Hotel properties	-	-	126.7	126.7
	-	-	1,144.7	1,144.7

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017 - Nil).

Notes to Financial Statements (Cont'd)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Residential properties HK\$'million	Commercial properties HK\$'million	Hotel properties HK\$'million
Carrying amount at 1st January, 2017	808.0	218.0	–
Capital expenditure for the year	4.1	–	–
Transfer from owner-occupied properties	–	–	125.8
Transfer to owner-occupied property	–	(66.0)	–
Gain from fair value adjustments	51.9	2.0	–
Exchange realignment	–	–	0.9
	<hr/>	<hr/>	<hr/>
Carrying amount at 31st December, 2017 and 1st January, 2018	864.0	154.0	126.7
Capital expenditure for the year	–	–	2.7
Gain from fair value adjustments	–	2.0	3.6
Exchange realignment	–	–	(5.8)
	<hr/>	<hr/>	<hr/>
Carrying amount at 31st December, 2018	<u>864.0</u>	<u>156.0</u>	<u>127.2</u>

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range	
			2018	2017
Residential properties	Sales comparison approach	Estimated market price per square foot	HK\$23,873 to HK\$33,315	HK\$23,873 to HK\$33,315
Commercial properties	Discounted cash flow method	Capitalisation rate	3.00%	3.25%
		Discount rate	6.00%	6.25%
		Estimated rental value per square metre and per month	HK\$579 to HK\$721	HK\$546 to HK\$727
Hotel properties	Discounted cash flow method	Capitalisation rate	8.5%	8.5%
		Discount rate	11.25%	10.52%
		Estimated rental value per square metre and per month	Euro 5.91 to Euro 6.37	Euro 5.27 to Euro 6.23

Notes to Financial Statements (Cont'd)

Under the sales comparison approach, fair value is estimated with reference to the sales of comparable properties as available in the market, with adjustment for the difference in key attributes such as the time, location, size, interior decoration and other relevant matters.

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flows in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross rental income less expenses. The series of periodic net rental income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase/(decrease) in the estimated price per square foot and estimated market rental value in isolation would result in a significant increase/(decrease) in the fair value of the residential, commercial and hotel properties, respectively. A significant increase/(decrease) in the capitalisation rate and the discount rate in isolation would result in a significant decrease/(increase) in the fair value of the commercial and hotel properties.

15. PROPERTIES UNDER DEVELOPMENT

Properties under development are analysed as follows:

	2018 HK\$'million	2017 HK\$'million
Balance at 1st January	762.8	–
Additions	135.1	762.8
Balance at 31st December	<u>897.9</u>	<u>762.8</u>

16. INVESTMENTS IN JOINT VENTURES

	2018 HK\$'million	2017 HK\$'million
Share of net assets	1,269.1	1,155.8
Unrealised income and gain eliminated	(174.5)	(245.8)
Loans to a joint venture	2,375.8	2,071.6
Amount due from a joint venture	69.5	49.2
	<u>3,539.9</u>	<u>3,030.8</u>

The loans to a joint venture are unsecured, interest-free and repayable on demand except for (i) an amount of HK\$662.6 million (2017 - HK\$662.6 million) which is interest bearing at 4% per annum and (ii) an amount of HK\$1,201.1 million (2017 - HK\$907.6 million) which is interest bearing at 5% - 5.125% per annum. In the opinion of the Directors, these loans are considered as part of the Group's net investments in the joint ventures.

Particulars of the Group's joint ventures are as follows:

Name	Place of incorporation and business	Particulars of issued shares held	Percentage of equity interest attributable to the Group		Principal activities
			2018	2017	
Faith Crown Holdings Limited ("Faith Crown")	British Virgin Islands	Ordinary shares of US\$1 each	50	50	Investment holding
P&R Holdings Limited ("P&R Holdings")*	British Virgin Islands	Ordinary shares of US\$1 each	50	50	Investment holding

The above investments are indirectly held by the Company.

* P&R Holdings is owned by the Group and a wholly owned subsidiary of Paliburg Holdings Limited ("PHL"), the immediate listed holding company of the Company, on a 50:50 basis and is the holding company of subsidiaries primarily involved in the property development projects for sale and/or leasing and the undertaking of related investment and financing activities, including Cosmopolitan International Holdings Limited ("Cosmopolitan"), a listed subsidiary of P&R Holdings.

Both Faith Crown and P&R Holdings are considered material joint ventures of the Group and are accounted for using the equity method.

The following tables illustrate the summarised financial information in respect of each of the above joint ventures adjusted for any differences in accounting policies and reconciled to the carrying amounts in the financial statements:

	2018 HK\$'million	2017 HK\$'million
Faith Crown		
Non-current assets	45.5	45.5
Current liabilities	(40.6)	(40.6)
Net assets	<u>4.9</u>	<u>4.9</u>
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the joint venture and carrying amount of the investment	<u>2.4</u>	<u>2.4</u>

Notes to Financial Statements (Cont'd)

	2018 HK\$'million	2017 HK\$'million
P&R Holdings and its subsidiaries		
Non-current assets	6,302.9	5,221.0
Cash and cash equivalents	633.2	903.0
Other current assets	8,310.5	9,096.9
Current assets	8,943.7	9,999.9
Financial liabilities, excluding trade and other payables	(3,161.2)	(2,987.4)
Other current liabilities	(1,154.1)	(3,193.0)
Current liabilities	(4,315.3)	(6,180.4)
Non-current financial liabilities, excluding trade and other payables	(7,622.7)	(5,993.8)
Other non-current liabilities	(492.5)	(468.6)
Non-current liabilities	(8,115.2)	(6,462.4)
Net assets	2,816.1	2,578.1
Net assets attributable to equity holders of the parent	2,533.4	2,306.9
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the joint venture	1,266.7	1,153.4
Unrealised interest income eliminated	(167.9)	(231.1)
Unrealised fair value gain eliminated	(6.6)	(14.7)
Loans to the joint venture	2,375.8	2,071.6
Amount due from the joint venture	69.5	49.2
Carrying amount of the investment	3,537.5	3,028.4
Revenue	3,278.7	1,014.1
Interest income	33.1	26.3
Depreciation	(9.3)	(19.1)
Interest expenses	(212.3)	(109.0)
Income tax	(117.0)	(24.5)
Profit for the year	374.5	373.8
Other comprehensive income/(loss) for the year	(116.2)	168.2
Total comprehensive income for the year	258.3	542.0

At 31st December, 2018, the Group's share of maximum capital commitment as agreed for P&R Holdings in respect of its property development projects amounted to HK\$3,700.0 million (2017 - HK\$3,700.0 million) (the "P&R Capital Commitment"). At 31st December, 2018, shareholder's loans in an aggregate amount of HK\$501.4 million (2017 - HK\$501.4 million) have been contributed, none of which (2017 - Nil) has been provided under the P&R Capital Commitment. In addition, a total amount of HK\$2,537.8 million (2017 - HK\$2,466.8 million) has been provided as guarantees, on a several basis, for banking facilities granted to certain subsidiaries of P&R Holdings, of which HK\$2,537.8 million (2017 - HK\$2,446.8 million) has been provided under the P&R Capital Commitment.

In addition, three (2017 - three) loan facilities totalling HK\$2,212.6 million (2017 - HK\$2,212.6 million) have been granted to P&R Holdings, of which HK\$1,874.4 million (2017 - HK\$1,570.2 million) has been utilised, which bear interest at fixed rates of 4% to 5.125% per annum (2017 - 4% to 5% per annum).

At the end of the reporting period, the Group's share of the P&R Holdings group's own capital commitments in respect of property development projects was as follows:

	2018 HK\$'million	2017 HK\$'million
Contracted, but not provided for	<u>416.7</u>	<u>907.5</u>

17. INVESTMENTS IN ASSOCIATES

	2018 HK\$'million	2017 HK\$'million
Share of net liabilities	(66.7)	(67.0)
Amounts due from associates	<u>83.2</u>	<u>82.8</u>
	<u>16.5</u>	<u>15.8</u>

The amounts due from associates are unsecured, interest-free and repayable on demand. In the opinion of the Directors, these amounts are considered as part of the Group's net investments in the associates.

Notes to Financial Statements (Cont'd)

Particulars of the Group's associates are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			2018	2017	
8D Matrix Limited ("8D Matrix")	British Virgin Islands	HK\$2,000,000	36.0 ⁽¹⁾	36.0 ⁽¹⁾	Investment holding
8D International Limited [#]	Hong Kong	HK\$500,000	36.0 ⁽¹⁾	36.0 ⁽¹⁾	Advertising and promotion
Century Innovative Technology Limited [#]	Hong Kong	HK\$1	36.0 ⁽¹⁾	36.0 ⁽¹⁾	Development and distribution of edutainment products
深圳市世紀創意科技 有限公司 ^{**}	PRC/ Mainland China	RMB63,000,000	36.0 ⁽¹⁾	36.0 ⁽¹⁾	Development and distribution of edutainment products
Yieldtop Holdings Limited ("Yieldtop")	British Virgin Islands	US\$100	50.0	50.0	Investment holding
Hang Fok Properties Limited ("Hang Fok") [^]	British Virgin Islands	US\$100	50.0	50.0	Investment holding

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

These are wholly owned subsidiaries of 8D Matrix.

[^] This is a wholly owned subsidiary of Yieldtop.

⁽¹⁾ The percentage of equity interest includes a 6% attributable interest held through 8D International (BVI) Limited, a 30% owned associate of the Group.

The above associates are indirectly held by the Company.

Notes to Financial Statements (Cont'd)

8D Matrix is considered a material associate of the Group and is accounted for using the equity method. 8D Matrix and its subsidiaries are mainly engaged in the development and distribution of edutainment products, and advertising and promotion activities.

The following tables illustrate the summarised financial information in respect of the above associate adjusted for any differences in accounting policies and reconciled to the carrying amounts in the financial statements:

	2018 HK\$'million	2017 HK\$'million
8D Matrix and its subsidiaries		
Non-current assets	0.7	1.2
Current assets	19.8	16.1
Current liabilities	(7.2)	(5.0)
Non-current liabilities	(229.5)	(228.5)
	<u>(216.2)</u>	<u>(216.2)</u>
Non-controlling interests	(0.2)	(0.2)
Net liabilities attributable to equity holders of the parent	<u>(216.4)</u>	<u>(216.4)</u>
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	30%	30%
Group's share of net liabilities of the associate	(64.9)	(64.9)
Amount due from the associate	68.8	68.5
Carrying amount of the investment	<u>3.9</u>	<u>3.6</u>
Revenue	22.8	10.4
Profit/(loss) for the year	0.3	(50.8)
Other comprehensive income/(loss) for the year	(0.3)	0.6
Total comprehensive loss for the year	<u>-</u>	<u>(50.2)</u>

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 HK\$'million	2017 HK\$'million
Share of the associates' profits and total comprehensive income for the year	0.3	11.9
Aggregate carrying amount of the Group's investments in the associates	<u>12.6</u>	<u>12.2</u>

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK\$'million
Unlisted equity investments, at fair value	269.1
Unlisted equity investments, at cost	<u>25.0</u>
	<u><u>294.1</u></u>

During the year ended 31st December, 2017, the net gains in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK\$28.3 million.

The above unlisted investments represent investments which were designated as available-for-sale financial assets and had no fixed maturity date or coupon rate.

As at 31st December, 2017, unlisted equity investments with a carrying amount of HK\$25.0 million were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of these investments in the near future.

As at 31st December, 2017, the Group's unlisted equity investments with a carrying value of HK\$23.5 million were pledged to secure banking facilities granted to the Group.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK\$'million	2017 HK\$'million
Non-current assets:		
Unlisted equity investments, at fair value	107.6	–
Unlisted fund investments, at fair value	442.5	–
Structured deposit, at fair value	–	1.9
	550.1	1.9
Current assets:		
Listed equity investments, at fair value	1,162.5	928.9
Listed debt investments, at fair value	1,557.4	1,101.6
Structured deposit, at fair value	1.9	–
	2,721.8	2,030.5
	3,271.9	2,032.4

The unlisted equity and fund investments at 31st December, 2018 were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The structured deposit was designated upon initial recognition as financial assets at fair value through profit or loss as it is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management and investment strategy, and information about the investment is provided on that basis to the Group's key management personnel.

The listed equity investments and listed debt investments included under current assets at 31st December, 2018 and 2017 were classified as held for trading.

At 31st December, 2018, certain of the Group's financial assets at fair value through profit or loss with a carrying value of HK\$1,426.2 million (2017 – HK\$1,004.9 million) were pledged to secure banking facilities granted to the Group as well as bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT.

20. OTHER LOAN

The amounts included under non-current assets and current assets represent a term loan and a revolving loan respectively, granted by the Group to the Cosmopolitan group during the year. The total loan facilities amount to HK\$1,850.0 million ("Loan Facilities") which bear interest at 5% per annum and have a term of five years maturing in 2021. They are secured by a pledge over the equity interests of the holding companies of certain property development projects owned by the Cosmopolitan group in the PRC.

Pursuant to the relevant agreements between the Group and the Cosmopolitan group, which became unconditional in October 2016, the Loan Facilities were fully drawn down and the loan proceeds, together with proceeds from the issue of certain convertible bonds by the Cosmopolitan group to P&R Holdings group, were used to fully repay the consideration payables owed by the Cosmopolitan group to the Group and P&R Holdings group in relation to its acquisition of certain property development projects from the Group and P&R Holdings group in 2013. As at 31st December, 2018, the utilised Loan Facilities was HK\$1,329.3 million (2017 - HK\$1,122.0 million).

21. FINANCE LEASE RECEIVABLES

As at 31st December, 2017, the Group has leased out certain aircraft under finance lease arrangements, with remaining lease terms of less than one year.

	Minimum lease payments	Present value of minimum lease payments
	2017	2017
	HK\$'million	HK\$'million
Finance lease receivables comprise:		
Within one year	39.0	<u>37.1</u>
Less: unearned finance income	<u>(1.9)</u>	
Total net finance lease receivables	<u>37.1</u>	

The Group's finance lease receivables were denominated in United States dollars ("USD").

Unguaranteed residual value of assets leased under finance leases at the end of the reporting period is Nil.

22. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK\$140.6 million (2017 - HK\$140.3 million) representing the trade debtors of the Group.

	2018 HK\$'million	2017 HK\$'million
Trade debtors	145.3	142.1
Impairment	(4.7)	(1.8)
	<u>140.6</u>	<u>140.3</u>

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. Bad debts are written off as incurred.

Included in the Group's debtors, deposits and prepayments are amounts due from fellow subsidiaries of HK\$28.4 million (2017 - HK\$17.2 million).

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.

The ageing analysis of these debtors as at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK\$'million	2017 HK\$'million
Outstanding balances with ages:		
Within 3 months	119.7	115.7
Between 4 to 6 months	3.3	3.5
Between 7 to 12 months	5.5	7.2
Over 1 year	16.8	15.7
	<u>145.3</u>	<u>142.1</u>
Impairment	(4.7)	(1.8)
	<u>140.6</u>	<u>140.3</u>

Notes to Financial Statements (Cont'd)

The movements in the loss allowance for impairment of trade debtors are as follows:

	2018 HK\$'million	2017 HK\$'million
At 1st January	1.8	1.7
Impairment loss recognised (note 6)	2.9	0.1
At 31st December	4.7	1.8

Impairment under HKFRS 9 for the year ended 31st December, 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade debtors are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade debtors using a provision matrix:

As at 31st December, 2018

	Neither past due nor impaired	Past due				Total
		Within 3 months	4 to 6 months	7 to 12 months	Over 1 year	
Expected credit loss rate	–	–	1.7%	3.5%	26.2%	3.2%
Gross carrying amount (HK\$'million)	96.4	23.3	3.3	5.5	16.8	145.3
Expected credit losses (HK\$'million)	–	–	0.1	0.2	4.4	4.7

Impairment under HKAS 39 for the year ended 31st December, 2017

Included in the above provision for impairment of trade debtors, which was measured based on incurred credit losses under HKAS 39, as at 31st December, 2017 was a provision for individually impaired trade debtors of HK\$1.8 million with a gross carrying amount HK\$1.8 million.

The individually impaired trade debtors as at 31st December, 2017 related to customers that were in financial difficulties and the balances are not expected to be recovered.

The ageing analysis of the trade debtors as at 31st December, 2017 that were not considered to be impaired under HKAS 39 is as follows:

	2017 HK\$'million
Neither past due nor impaired	90.2
Within 3 months past due	25.6
4 to 6 months past due	3.4
7 to 12 months past due	7.1
Over 1 year past due	14.0
	<u>140.3</u>

Trade debtors that were neither past due nor impaired related to a number of diversified customers for whom there was no recent history of default.

Trade debtors that were past due but not impaired related to a number of diversified independent customers that had a good track record with the Group. Based on past experience, the Directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

23. PROPERTIES HELD FOR SALE

At 31st December, 2018, the Group's properties held for sale with a carrying value of HK\$223.1 million (2017 - HK\$211.6 million) were pledged to secure banking facilities granted to the Group.

24. INVENTORIES

	2018 HK\$'million	2017 HK\$'million
Hotel and other merchandise	<u>27.8</u>	<u>28.9</u>

25. AIRCRAFT HELD FOR SALE

At 31st December, 2018 and 2017, the Group's aircraft which met the criteria to be classified as held for sale is as follows:

	2018 HK\$'million	2017 HK\$'million
Balance at 1st January	18.4	–
Transfer from property, plant and equipment	58.3	18.4
Disposals	(70.9)	–
Exchange realignment	0.1	–
	<hr/>	<hr/>
Balance at 31 December	<u>5.9</u>	<u>18.4</u>

26. FINANCIAL ASSETS AT AMORTISED COST/HELD-TO-MATURITY INVESTMENTS

At 31st December, 2018, the amount represented unlisted certificates of deposit with fixed maturity dates. All unlisted certificates of deposit are denominated in Renminbi with fixed interest rates ranging from 3.5% to 4.05% per annum (2017 - 3.7% to 3.8% per annum), except for an amount of HK\$208.0 million (2017 - Nil) which was denominated in Hong Kong dollars with fixed interest rate of 2.0% per annum.

At 31st December, 2018, the Group's financial assets at amortised cost (2017 - held-to-maturity investments) with a carrying amount of HK\$344.6 million (2017 - HK\$97.1 million) were pledged to secure banking facilities granted to the Group as well as bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT.

27. RESTRICTED CASH

At 31st December, 2018, the Group had approximately HK\$68.5 million (2017 - HK\$67.7 million) of cash which was restricted as to use and mainly to be utilised for the purpose of servicing the finance costs and repayments on certain interest bearing bank borrowings, funding the furniture, fixtures and equipment reserve for use in the hotel buildings, and deposits of certain tenants in respect of certain investment properties.

28. CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

Included in the balance is an amount of HK\$65.4 million (2017 - HK\$76.1 million) representing the trade creditors of the Group. The ageing analysis of these creditors as at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK\$'million	2017 HK\$'million
Outstanding balances with ages:		
Within 3 months	65.1	75.9
Between 4 to 6 months	0.2	0.1
Between 7 to 12 months	0.1	0.1
	<u>65.4</u>	<u>76.1</u>

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

Included in the creditors, deposits received and accruals are amounts due to associates, a joint venture and fellow subsidiaries of HK\$18.5 million (2017 - HK\$18.7 million), HK\$22.8 million (2017 - HK\$22.8 million) and HK\$8.6 million (2017 - HK\$24.2 million), respectively, which are unsecured, non-interest bearing and repayable on demand.

29. CONTRACT LIABILITIES

	31st December, 2018 HK\$'million	1st January, 2018 HK\$'million
<i>Contract liabilities arising from:</i>		
Hotel operations	36.5	45.5
Loyalty points programmes	6.1	6.9
	<u>42.6</u>	<u>52.4</u>

Contract liabilities include consideration received from customers in advance for hotel services and liabilities on the loyalty points programmes operated by the Group's hotels which allow customers to accumulate points when they patronise the Group's hotels and redeem the points for future spending in the hotels or other gifts.

30. INTEREST BEARING BANK BORROWINGS

	2018		2017	
	Maturity	HK\$'million	Maturity	HK\$'million
Current				
Bank loans – secured	2019	1,174.8	2018	1,347.5
Non-current				
Bank loans – secured	2020 - 2023	10,925.8	2019-2021	8,376.1
		<u>12,100.6</u>		<u>9,723.6</u>
Analysed into:				
Bank loans repayable:				
Within one year		1,174.8		1,347.5
In the second year		984.7		1,726.7
In the third to fifth years, inclusive		9,941.1		6,649.4
		<u>12,100.6</u>		<u>9,723.6</u>

On 12th September, 2016, Regal REIT group, through its wholly owned subsidiaries, Bauhinia Hotels Limited and Rich Day Investments Limited, entered into a facility agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$1,000.0 million (the "2016 IH Facilities"), for a term of five years to September 2021. The 2016 IH Facilities are secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. As at 31st December, 2018, the 2016 IH Facilities had an outstanding term loan facility of HK\$4,500.0 million and the full amount of the revolving loan facility was unutilised.

On 8th March, 2018, Regal REIT group, through its wholly owned subsidiary, Ricobem Limited, arranged a bilateral term loan facility of HK\$3,000.0 million (the "2018 RKH Facility"), secured by a mortgage over the Regal Kowloon Hotel. The 2018 RKH Facility was drawn down mainly for refinancing the notes under the medium term note programme of the Regal REIT group that matured in March 2018 and May 2018, respectively. The 2018 RKH Facility has a term of five years to March 2023. As at 31st December, 2018, the outstanding amount of the 2018 RKH Facility was HK\$3,000.0 million, representing the full amount of the term loan facility.

On 22nd December, 2014, a term loan facility agreement for a principal amount of HK\$440.0 million (the "2014 WC Facility") with a term of five years to December 2019, was entered into by Sonnix Limited, a wholly owned subsidiary of Regal REIT group. The 2014 WC Facility, is secured by the iclub Wan Chai Hotel. As at 31st December, 2018, the outstanding amount on the 2014 WC Facility was HK\$440.0 million, representing the full amount of the term loan facility.

On 19th October, 2018, Regal REIT group, through its wholly owned subsidiary, Tristan Limited, arranged a new bilateral loan facility of up to HK\$790.0 million, comprised of a term loan facility of HK\$632.0 million and a revolving loan facility of up to HK\$158.0 million (the "2018 SW Facilities"), secured by the iclub Sheung Wan Hotel to replace the then term and revolving loan facilities of HK\$790.0 million. The 2018 SW Facilities have a term of five years to October 2023. As at 31st December, 2018, the utilised amount of the 2018 SW Facilities was HK\$632.0 million, representing the full amount of the term loan facility.

On 29th November, 2018, Regal REIT group, through its wholly owned subsidiary, Wise Decade Investments Limited, arranged another new bilateral loan facility of up to HK\$825.0 million, comprised of a term loan facility of HK\$660.0 million and a revolving loan facility of up to HK\$165.0 million (the "2018 FH Facilities"), secured by the iclub Fortress Hill Hotel to replace the then term and revolving loan facilities of HK\$825.0 million. The 2018 FH Facilities have a term of five years to November 2023. As at 31st December, 2018, the outstanding amount of the 2018 FH Facilities was HK\$660.0 million, representing the full amount of the term loan facility.

On 4th September, 2017, Regal REIT group, through its wholly owned subsidiary, Land Crown International Limited, arranged for a term loan facility of HK\$748.0 million (the "2017 MTW Facility"), secured by the iclub Ma Tau Wai Hotel. The 2017 MTW Facility has a term of three years to September 2020. As at 31st December, 2018, the outstanding amount of the 2017 MTW Facility was HK\$748.0 million, representing the full amount of the term loan facility.

As at 31st December, 2018, the outstanding loan facilities of Regal REIT group bore interest at the Hong Kong Interbank Offered Rate ("HIBOR") plus an interest margin ranging from 0.92% per annum to 1.45% per annum (2017 - ranging from 0.95% per annum to 1.45% per annum).

Bank borrowings under the 2016 IH Facilities, the 2018 RKH Facility, the 2014 WC Facility, the 2018 SW Facilities, the 2018 FH Facilities and the 2017 MTW Facility are guaranteed by Regal REIT and/or certain individual companies of the Regal REIT group on a joint and several basis.

The Regal REIT group's interest bearing bank borrowings are also secured by, amongst others:

- (i) legal charges and debentures over the corresponding properties;
- (ii) an assignment of rental income and all other proceeds arising from and including all rights, titles and interests under all hotel management agreements and lease agreements, where appropriate, relating to the relevant properties;
- (iii) charges over each relevant rental account, sales proceeds account and other control accounts of the Regal REIT group, if any;
- (iv) a floating charge over all of the undertakings, properties, assets and rights of each of the relevant companies of the Regal REIT group; and
- (v) an equitable charge over the shares in the relevant companies of the Regal REIT group.

As at 31st December, 2018, the Group's other bank borrowings bore interest at HIBOR plus an interest margin ranging from 0.75% per annum to 1.25% per annum except for bank loans of HK\$21.0 million, which bore interest at London Interbank Offered Rates plus an interest margin of 0.75% per annum and bank loans of HK\$714.3 million, which bore interest at the bank's cost of fund plus an interest margin ranging from 0.75% per annum to 0.8% per annum. All interest bearing bank borrowings were denominated in Hong Kong dollars except for bank loans of HK\$557.0 million which were denominated in United States dollars and a bank loan of HK\$21.6 million which was denominated in Euro.

Notes to Financial Statements (Cont'd)

As at 31st December, 2017, the Group's other bank borrowings bore interest at HIBOR plus an interest margin ranging from 0.75% per annum to 1.25% per annum except for bank loans of HK\$72.2 million which bore interest at London Interbank Offered Rate plus an interest margin of 0.75% per annum and bank loans of HK\$392.9 million which bore interest at the bank's cost of fund plus an interest margin ranging from 0.75% per annum to 0.8% per annum. All interest bearing bank borrowings were denominated in Hong Kong dollars except for bank loans of HK\$310.1 million which were denominated in United States dollars, bank loans of HK\$40.9 million which were denominated in Euro and a bank loan of HK\$7.8 million which was denominated in Japanese Yen.

The Group's bank borrowings are secured by a pledge over certain assets of the Group as further detailed in note 40 to the financial statements.

31. OTHER BORROWINGS

	2018 HK\$'million	2017 HK\$'million
Current		
Other borrowings – unsecured	–	1,945.8
Non-Current		
Other borrowings – unsecured	<u>2,725.9</u>	<u>2,713.7</u>
	<u><u>2,725.9</u></u>	<u><u>4,659.5</u></u>
	2018 HK\$'million	2017 HK\$'million
Analysed into:		
Other borrowings repayable:		
Within one year	–	1,945.8
In the third to fifth years, inclusive	<u>2,725.9</u>	<u>2,713.7</u>
	<u><u>2,725.9</u></u>	<u><u>4,659.5</u></u>

On 5th October, 2012, RH International Finance Limited (the "MTN Issuer"), a wholly owned subsidiary of the Company, established a US\$1,000 million medium term note programme (the "MTN Programme").

On 19th October, 2012, the MTN Issuer issued under the MTN Programme a series of United States dollar denominated senior unsecured 5-year term notes in an aggregate nominal principal amount of US\$300.0 million at a coupon interest rate of 4.25% per annum. The notes were issued at a discount at 99.444% of the principal amount. The notes were fully repaid during the year ended 31st December, 2017.

On 20th July, 2016, the MTN Issuer issued under the MTN Programme a series of United States dollar denominated senior unsecured 5-year term notes in an aggregate nominal principal amount of US\$350.0 million at a coupon interest rate of 3.875% per annum. The notes were issued at a discount at 99.663% of the principal amount.

On 11th January, 2013, R-REIT International Finance Limited (the "Regal REIT MTN Issuer"), a wholly owned subsidiary of Regal REIT, established a US\$1,000 million medium term note programme (the "Regal REIT MTN Programme").

On 22nd March, 2013, the Regal REIT MTN Issuer issued under the Regal REIT MTN Programme a series of Hong Kong dollar denominated senior unsecured 5-year term notes in an aggregate nominal principal amount of HK\$775.0 million at a coupon interest rate of 4.125% per annum. The notes were issued at a discount at 99.44% of the principal amount. The notes were fully repaid on 22nd March, 2018.

On 22nd May, 2013, the Regal REIT MTN Issuer issued under the Regal REIT MTN Programme a series of United States dollar denominated senior unsecured 5-year term notes in an aggregate nominal principal amount of US\$150.0 million at a coupon interest rate of 4.10% per annum. The notes were issued at a discount at 99.553% of the principal amount. The notes were fully repaid on 22nd May, 2018.

32. DERIVATIVE FINANCIAL INSTRUMENTS

	ASSETS	
	2018 HK\$'million	2017 HK\$'million
Put options	<u>28.4</u>	<u>–</u>

	LIABILITIES	
	2018 HK\$'million	2017 HK\$'million
Foreign currency forward contracts	<u>1.0</u>	<u>3.0</u>

At the end of the reporting period, the Group had outstanding foreign currency forward contracts and put options in relation to certain financial assets acquired by the Group, which were not designated for hedge purposes and were measured at fair value through profit or loss. A net fair value gain of HK\$27.4 million was credited (2017 – charged) to the statement of profit or loss during the year (2017 – loss of HK\$3.0 million).

Notes to Financial Statements (Cont'd)

33. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	Fair value adjustments arising from revaluation of property, plant and equipment HK\$'million	Depreciation allowances in excess of related depreciation HK\$'million	Depreciation in excess of related depreciation allowances HK\$'million	Losses available for offsetting against future taxable profits HK\$'million	Fair value adjustments arising from acquisition of a business HK\$'million	Total HK\$'million
Gross deferred tax assets/(liabilities) at 1st January, 2017	-	(946.0)	1.9	95.7	(12.2)	(860.6)
Deferred tax charged to other comprehensive income during the year	(2.5)	-	-	-	-	(2.5)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	-	26.7	(0.1)	(31.0)	(0.2)	(4.6)
Exchange differences	(0.2)	-	-	-	(1.8)	(2.0)
Gross deferred tax assets/(liabilities) at 31st December, 2017 and at 1st January, 2018	(2.7)	(919.3)	1.8	64.7	(14.2)	(869.7)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	-	40.9	(0.2)	(12.0)	(0.6)	28.1
Exchange differences	0.1	-	-	-	0.6	0.7
Gross deferred tax assets/(liabilities) at 31st December, 2018	(2.6)	(878.4)	1.6	52.7	(14.2)	(840.9)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018 HK\$'million	2017 HK\$'million
Net deferred tax assets recognised in the consolidated statement of financial position	42.9	51.7
Net deferred tax liabilities recognised in the consolidated statement of financial position	(883.8)	(921.4)
	(840.9)	(869.7)

The Group has unrecognised tax losses arising in Hong Kong amounting to HK\$3,063.7 million (2017 - HK\$3,022.2 million) at the end of the reporting period. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets in respect of the above tax losses amounting to HK\$505.5 million (2017 - HK\$498.7 million) have not been recognised on account of the unpredictability of future profit streams.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1st January, 2008 and applies to earnings after 31st December, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1st January, 2008.

At 31st December, 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and joint ventures established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries and joint ventures will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$337.1 million at 31st December, 2018 (2017 - HK\$109.6 million).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. SHARE CAPITAL AND SHARE PREMIUM

	2018 HK\$'million	2017 HK\$'million
Shares		
Authorised:		
2,000.0 million (2017 - 2,000.0 million) ordinary shares of HK\$0.10 each	200.0	200.0
0.1 million (2017 - 0.1 million) 5¼% convertible cumulative redeemable preference shares of US\$10 each	1.3	1.3
	<u>201.3</u>	<u>201.3</u>
Issued and fully paid:		
898.8 million (2017 - 898.8 million) ordinary shares of HK\$0.10 each	89.9	89.9
Share premium		
Ordinary shares	<u>404.7</u>	<u>404.7</u>

Notes to Financial Statements (Cont'd)

A summary of the movements in the Company's share capital and share premium account during the years ended 31st December, 2018 and 2017 is as follows:

	Authorised		Issued and fully paid		Share premium account
	Number of shares 'million	Amount HK\$'million	Number of shares 'million	Amount HK\$'million	Amount HK\$'million
Ordinary shares					
At 1st January, 2017	2,000.0	200.0	916.1	91.6	520.1
Repurchase and cancellation of ordinary shares (note)	—	—	(17.3)	(1.7)	(115.4)
At 31st December, 2017, 1st January, 2018 and 31st December, 2018	<u>2,000.0</u>	<u>200.0</u>	<u>898.8</u>	<u>89.9</u>	<u>404.7</u>
5¼% convertible cumulative redeemable preference shares of US\$10 each					
At 1st January, 2017, 31st December, 2017, 1st January, 2018 and 31st December, 2018	<u>0.1</u>	<u>1.3</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total share capital					
At 31st December, 2018		<u>201.3</u>		<u>89.9</u>	<u>404.7</u>
At 31st December, 2017		<u>201.3</u>		<u>89.9</u>	<u>404.7</u>

Note:

All ordinary shares repurchased during the year ended 31st December, 2017 were cancelled during the year, and the issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The premium and related expenses paid on the repurchases of the ordinary shares of HK\$115.4 million were charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

35. RESERVES

The amounts of the Group's reserves and the movement therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 81 and 82.

36. PERPETUAL SECURITIES

On 13th April, 2017, RH International Finance Limited, a wholly owned subsidiary of the Company, issued a series of United States dollar denominated guaranteed senior perpetual securities in an aggregate nominal principal amount of US\$225.0 million (equivalent to HK\$1,750.0 million) at a coupon interest rate of 6.5% per annum.

There was no movement in the number of perpetual securities during the year ended 31st December, 2018. The direct transaction costs attributable to the perpetual securities amounted to HK\$17.1 million during the year ended 31st December, 2017.

The perpetual securities are guaranteed by the Company. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the issuers of the perpetual securities.

37. PARTLY OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interests of Regal REIT	<u>25.42%</u>	<u>25.42%</u>
	2018	2017
	HK\$'million	HK\$'million
Profit for the year allocated to non-controlling interests of the Regal REIT group	<u>18.2</u>	<u>16.5</u>
Dividends paid to non-controlling interests of the Regal REIT group	<u>120.0</u>	<u>127.5</u>
Accumulated balances of non-controlling interests of the Regal REIT group at the reporting date	<u>831.1</u>	<u>933.0</u>

Notes to Financial Statements (Cont'd)

The following table illustrates the summarised financial information of the Regal REIT group. The amounts disclosed are before any intra-group eliminations:

	2018 HK\$'million	2017 HK\$'million
Revenue	1,021.9	957.8
Profit for the year, before distributions to unitholders	71.5	65.0
Total comprehensive income for the year, before distributions to unitholders	<u>71.5</u>	<u>65.0</u>
Non-current assets	15,598.5	16,005.8
Current assets	278.8	166.3
Current liabilities	(590.5)	(2,990.1)
Non-current liabilities	<u>(10,343.5)</u>	<u>(7,837.9)</u>
Net cash flows from operating activities	503.7	493.0
Net cash flows used in investing activities	(81.4)	(1,466.8)
Net cash flows from/(used in) financing activities	<u>(336.7)</u>	<u>950.0</u>
Net increase/(decrease) in cash and cash equivalents	<u>85.6</u>	<u>(23.8)</u>

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash and cash equivalent balances

	2018 HK\$'million	2017 HK\$'million
Cash and bank balances	888.8	1,158.4
Non-pledged time deposits with an original maturity of less than three months when acquired	883.5	1,681.4
Non-pledged time deposit with an original maturity of more than three months when acquired	<u>10.0</u>	<u>–</u>
Cash and cash equivalents	<u>1,782.3</u>	<u>2,839.8</u>

In addition, at the end of the reporting period, the cash and bank balances of the Group amounting to HK\$42.0 million (2017 - HK\$153.2 million) were held by certain subsidiaries operating in Mainland China where exchange controls apply.

Notes to Financial Statements (Cont'd)

(b) Major non-cash transactions

	2018 HK\$'million	2017 HK\$'million
Security deposits, maintenance liabilities and other liabilities assumed in purchases of aircraft	–	29.5
Security deposits and maintenance liabilities settled upon disposals of aircraft	–	12.1

(c) Changes in liabilities arising from financing activities

2018

	Interest bearing bank borrowings HK\$'million	Other borrowings HK\$'million	Interest payable on interest bearing bank borrowings and other borrowings HK\$'million
At 1st January, 2018	9,723.6	4,659.5	56.4
Changes from financing cash flows	2,349.5	(1,952.3)	(413.5)
Foreign exchange movement	(0.8)	11.9	(5.2)
Finance costs	28.3	6.8	432.4
At 31st December, 2018	<u>12,100.6</u>	<u>2,725.9</u>	<u>70.1</u>

2017

	Interest bearing bank borrowings HK\$'million	Other borrowings HK\$'million	Interest payable on interest bearing bank borrowings and other borrowings HK\$'million
At 1st January, 2017	6,358.7	6,903.0	73.9
Changes from financing cash flows	3,341.9	(2,301.0)	(415.1)
Foreign exchange movement	6.2	42.9	(8.5)
Finance costs	16.8	14.6	406.1
At 31st December, 2017	<u>9,723.6</u>	<u>4,659.5</u>	<u>56.4</u>

39. CONNECTED AND RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances set out elsewhere in the notes to the financial statements, the Group had the following material connected and related party transactions during the year:

	Notes	2018 HK\$'million	2017 HK\$'million
Fellow subsidiaries:			
Management fees	(i)	46.5	38.8
Development consultancy fees	(ii)	14.4	33.6
Service fees in respect of security systems and products and other software	(iii)	1.2	1.5
Repairs and maintenance fees and construction fees	(iv)	1.4	0.2
An associate:			
Advertising and promotion fees (including cost reimbursements)	(v)	4.4	6.0
A joint venture:			
Gross interest income	(vi)	134.4	158.6
Acquisition of the iclub Ma Tau Wai Hotel and related current assets	(vii)	–	1,361.3
Estate management fee income	(viii)	2.6	–
		<u>2.6</u>	<u>–</u>

Notes:

- (i) The management fees included rentals and other overheads allocated from a wholly owned subsidiary of CCIHL, either on the basis of specific attribution or by reference to a predetermined ratio assessed by the management of CCIHL, PHL, Cosmopolitan and the Company based on the distribution of job responsibilities and the estimated time spent by the relevant staff in serving each of the four groups.
- (ii) The development consultancy fees were paid to a fellow subsidiary for various services provided, which include advisory, supervisory, architectural and design services in connection with room and other renovation projects of the hotels operated by the Group. The fees were charged at agreed rates of the estimated cost of individual projects.
- (iii) Fees were paid to certain fellow subsidiaries for the purchases and maintenance services of the security systems and products and other software installed in the Group's hotel properties. The fees were charged based on cost plus a margin depending on the nature and location of the work performed.
- (iv) Fees were paid to a fellow subsidiary for providing repairs and maintenance and construction works for the Group's hotel properties. The fees were negotiated based on cost plus a margin and/or awarded through competitive tendering process.
- (v) The advertising and promotion fees paid to an associate comprised a retainer fee determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed.

- (vi) The amount comprises interest income earned by the Group with respect to interest bearing loans to P&R Holdings at a fixed rate of 4% to 5.125% per annum (2017 - 4% to 5% per annum) and interest income on consideration receivable from Cosmopolitan group in respect of the sale of a property development project at 5% per annum (2017 - 5% per annum). In addition, it includes interest income earned by the Group on the loan facilities granted to the Cosmopolitan group at 5% per annum as detailed in note 20 to the financial statements.
- (vii) On 4th September, 2017, Regal REIT group completed the acquisition of iclub Ma Tau Wai Hotel from P&R Holdings in accordance with a share purchase agreement at a total consideration of HK\$1,361.3 million, comprised of the purchases price of HK\$1,360.0 million and a current assets adjustment of HK\$1.3 million.
- (viii) The estate management fee income earned by the Group was charged at an agreed percentage of total operating expenses of the shopping mall owned by P&R Holdings for estate management services rendered.

The Directors of the Company are of the opinion that the above transactions were entered into in the normal and usual course of business.

(b) Outstanding balances with related parties:

	Notes	2018 HK\$'million	2017 HK\$'million
Due from fellow subsidiaries	(i)	28.4	17.2
Due to a joint venture	(ii)	(22.8)	(22.8)
Due to associates	(ii)	(18.5)	(18.7)
Due to fellow subsidiaries	(ii)	(8.6)	(24.2)
Loans to a joint venture	(iii)	2,375.8	2,071.6
Due from a joint venture	(iii)	69.5	49.2
Due from associates	(iv)	83.2	82.8
Other loan	(v)	1,329.3	1,122.0

Notes:

- (i) Details of the amounts due from fellow subsidiaries are included in "Debtors, deposits and prepayments" in note 22 to the financial statements.
- (ii) Details of the amounts due to a joint venture, associates and fellow subsidiaries are included in "Creditors, deposits received and accruals" in note 28 to the financial statements.
- (iii) Details of the loans to a joint venture and the amount due from a joint venture are included in "Investments in joint ventures" in note 16 to the financial statements.
- (iv) Details of the amounts due from associates are included in "Investments in associates" in note 17 to the financial statements.
- (v) Details of the other loan are included in note 20 to the financial statements.

Notes to Financial Statements (Cont'd)

(c) Compensation of key management personnel of the Group:

	2018 HK\$'million	2017 HK\$'million
Short term employee benefits	31.6	30.0
Staff retirement scheme contributions	1.8	1.7
Total compensation paid to key management personnel	<u>33.4</u>	<u>31.7</u>

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transaction set out in note 39(a)(i) above also constituted a continuing connected transaction as defined in Chapter 14A of the Listing Rules to the Company, but is exempted from relevant disclosures and other requirements, including, inter alia, independent shareholders' approval in accordance with the Listing Rules ("Relevant Requirements") pursuant to rule 14A.98 of the Listing Rules.

A related party transaction set out in note 39(a)(ii) above also constituted a connected transaction as defined in Chapter 14A of the Listing Rules to the Company and is subject to relevant disclosures requirement under the Relevant Requirements, but is exempted from the other Relevant Requirements pursuant to rule 14A.76(2)(a) of the Listing Rules. The disclosures requirement with respect to such transaction has been complied with. The other related party transactions set out in note 39(a)(ii) above also constituted connected transactions as defined in Chapter 14A of the Listing Rules to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.76(1)(a) of the Listing Rules.

Certain of the related party transactions set out in note 39(a)(iii) above also constituted connected transactions to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.76(1)(a). The other related party transactions set out in note 39(a)(iii) above also constituted continuing connected transactions to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.76(1)(a) of the Listing Rules.

Certain of the related party transactions set out in note 39(a)(iv) above also constituted connected transactions to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.76(1)(a). The remaining related party transactions set out in note 39(a)(iv) above also constituted continuing connected transactions to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.76(1)(a).

The related party transactions set out in notes 39(a)(v) and (viii) above also constituted continuing connected transactions to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.76(1)(a).

The related party transactions set out in notes 39(a)(vi) and (vii) above were contemplated under transactions (the "Transactions") which constituted connected transactions to the Company subject to the Relevant Requirements. The Relevant Requirements with respect to the Transactions had been complied with.

Relevant disclosures and other requirements, including, inter alia, independent shareholders' approval (where required) in accordance with the Listing Rules with respect to the connected or continuing connected transactions during the prior year set out in note 39(a) had been made or met or otherwise exempted.

40. PLEDGE OF ASSETS

As at 31st December, 2018, the Group's properties held for sale and certain of the Group's property, plant and equipment, investment properties, financial assets at fair value through profit or loss, financial assets at amortised cost, time deposits and bank balances in the total amount of HK\$21,134.5 million were pledged to secure banking facilities granted to the Group as well as bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT.

As at 31st December, 2017, 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\$17,839.9 million were pledged to secure banking facilities granted to the Group as well as bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT.

41. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2018 HK\$'million	2017 HK\$'million
Corporate guarantees provided in respect of attributable share of banking facilities granted to certain subsidiaries of a joint venture	<u>2,537.8</u>	<u>2,446.8</u>

At 31st December, 2018, the banking facilities granted to certain subsidiaries of a joint venture subject to corporate guarantees given on a several basis to banks by the Group were utilised to the extent of HK\$2,334.1 million (2017 - HK\$1,841.0 million).

42. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain retail space and areas of its hotel properties and aircraft under operating lease arrangements, with leases negotiated for terms ranging from 2 to 6 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

The Group also leases certain of its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 4 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

Notes to Financial Statements (Cont'd)

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 HK\$'million	2017 HK\$'million
Within one year	103.3	70.0
In the second to fifth years, inclusive	115.2	118.4
After five year	–	9.6
	218.5	198.0

(b) As lessee

The Group leases certain office and shop units and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 12 years. Leases for office equipment are negotiated for terms ranging from 1 to 5 years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK\$'million	2017 HK\$'million
Land and buildings:		
Within one year	14.3	11.9
In the second to fifth years, inclusive	13.1	6.0
	27.4	17.9
Other equipment:		
Within one year	0.5	0.5
In the second to fifth years, inclusive	0.4	0.7
	0.9	1.2
	28.3	19.1

43. COMMITMENTS

In addition to the Group's share of a joint venture's own capital commitments detailed in note 16 and the operating lease commitments detailed in note 42(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 HK\$'million	2017 HK\$'million
Contracted, but not provided for:		
Property development projects	<u>1,142.9</u>	<u>88.5</u>

44. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018**Financial assets**

	<u>Financial assets at fair value through profit or loss</u>			Total HK\$'million
	- designated as such upon initial recognition HK\$'million	- held for trading HK\$'million	Financial assets at amortised cost HK\$'million	
Other loan (note 20)	–	–	1,329.3	1,329.3
Trade debtors (note 22)	–	–	140.6	140.6
Other financial assets included in debtors, deposits and prepayments	–	–	159.5	159.5
Financial assets at fair value through profit or loss (note 19)	552.0	2,719.9	–	3,271.9
Derivative financial instruments	–	28.4	–	28.4
Financial assets at amortised cost	–	–	481.3	481.3
Restricted cash	–	–	68.5	68.5
Pledged time deposits and bank balances	–	–	24.0	24.0
Time deposits	–	–	893.5	893.5
Cash and bank balances	–	–	888.8	888.8
	<u>552.0</u>	<u>2,748.3</u>	<u>3,985.5</u>	<u>7,285.8</u>

Notes to Financial Statements (Cont'd)

Financial liabilities

Trade creditors (note 28)	
Other financial liabilities included in creditors, deposits received and accruals	
Amount due to a joint venture	
Amount due to associates	
Derivative financial instruments (note 32)	
Interest bearing bank borrowings (note 30)	
Other borrowings (note 31)	

Financial liabilities at fair value through profit or loss - held for trading HK\$'million	Financial liabilities at amortised cost HK\$'million	Total HK\$'million
–	65.4	65.4
–	334.5	334.5
–	22.8	22.8
–	18.5	18.5
1.0	–	1.0
–	12,100.6	12,100.6
–	2,725.9	2,725.9
1.0	15,267.7	15,268.7

2017

Financial assets

	Financial assets at fair value through profit or loss					
	- designated as such upon initial recognition HK\$'million	- held for trading HK\$'million	Available-for-sale investments HK\$'million	Loans and receivables HK\$'million	Held-to-maturity investments HK\$'million	Total HK\$'million
Other loan (note 20)	–	–	–	1,122.0	–	1,122.0
Trade debtors (note 22)	–	–	–	140.3	–	140.3
Other financial assets included in debtors, deposits and prepayments	–	–	–	114.6	–	114.6
Finance lease receivables (note 21)	–	–	–	37.1	–	37.1
Financial assets at fair value through profit or loss (note 19)	1.9	2,030.5	–	–	–	2,032.4
Available-for-sale investments (note 18)	–	–	294.1	–	–	294.1
Held-to-maturity investments	–	–	–	–	167.9	167.9
Restricted cash	–	–	–	67.7	–	67.7
Pledged time deposits and bank balances	–	–	–	550.4	–	550.4
Time deposits	–	–	–	1,681.4	–	1,681.4
Cash and bank balances	–	–	–	1,158.4	–	1,158.4
	1.9	2,030.5	294.1	4,871.9	167.9	7,366.3

Financial liabilities

	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
	HK\$'million	HK\$'million	HK\$'million
Trade creditors (note 28)	–	76.1	76.1
Other financial liabilities included in creditors, deposits received and accruals	–	362.1	362.1
Amount due to a joint venture	–	22.8	22.8
Amount due to an associate	–	17.7	17.7
Derivative financial instruments (note 32)	3.0	–	3.0
Interest bearing bank borrowings (note 30)	–	9,723.6	9,723.6
Other borrowings (note 31)	–	4,659.5	4,659.5
	<u>3.0</u>	<u>14,861.8</u>	<u>14,864.8</u>

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial assets and financial liabilities approximated to their fair values at the end of the reporting period.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. Independent professional valuers are engaged for the valuation as appropriate. The valuation is reviewed and approved by management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

Notes to Financial Statements (Cont'd)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value as at 31st December, 2018

	Fair value measurement using			Total HK\$'million
	Quoted prices in active markets (Level 1) HK\$'million	Significant observable inputs (Level 2) HK\$'million	Significant unobservable inputs (Level 3) HK\$'million	
Financial assets at fair value through profit or loss:				
Listed equity investments	1,147.4	15.1	–	1,162.5
Listed debt investments	–	1,557.4	–	1,557.4
Unlisted equity investments	–	–	107.6	107.6
Unlisted fund investments	–	–	442.5	442.5
Structured deposit	–	1.9	–	1.9
Derivative financial instrument	–	28.4	–	28.4
	<u>1,147.4</u>	<u>1,602.8</u>	<u>550.1</u>	<u>3,300.3</u>

Assets measured at fair value as at 31st December, 2017

	Fair value measurement using			Total HK\$'million
	Quoted prices in active markets (Level 1) HK\$'million	Significant observable inputs (Level 2) HK\$'million	Significant unobservable inputs (Level 3) HK\$'million	
Available-for-sale investments:				
Unlisted equity investments	–	–	269.1	269.1
Financial assets at fair value through profit or loss:				
Listed equity investments	912.6	16.3	–	928.9
Listed debt investments	–	1,101.6	–	1,101.6
Structured deposit	–	1.9	–	1.9
	<u>912.6</u>	<u>1,119.8</u>	<u>269.1</u>	<u>2,301.5</u>

Notes to Financial Statements (Cont'd)

The movements in fair value measurements within Level 3 during the year are as follows:

	2018 HK\$'million	2017 HK\$'million
Financial assets at fair value through profit or loss/available-for-sale investments – unlisted investments:		
At 1st January	–	211.6
Effect of adoption of HKFRS 9 (note 2.2)	294.1	–
At 1st January (restated)	294.1	211.6
Purchases	282.7	30.3
Distributions	(26.8)	(1.1)
Total gains recognised in profit or loss	0.1	–
Total gains recognised in other comprehensive income	–	28.3
At 31st December	550.1	269.1

Liabilities measured at fair value as at 31st December, 2018

	Fair value measurement using			Total HK\$'million
	Quoted prices in active markets (Level 1) HK\$'million	Significant observable inputs (Level 2) HK\$'million	Significant unobservable inputs (Level 3) HK\$'million	
Derivative financial instruments	–	1.0	–	1.0

Liabilities measured at fair value as at 31st December, 2017

	Fair value measurement using			Total HK\$'million
	Quoted prices in active markets (Level 1) HK\$'million	Significant observable inputs (Level 2) HK\$'million	Significant unobservable inputs (Level 3) HK\$'million	
Derivative financial instruments	–	3.0	–	3.0

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017 - Nil).

Valuation techniques

The fair values of certain listed equity investments are based on quoted market prices.

The fair values of certain listed equity investments, listed debt investments and a structured deposit are determined based on the market values provided by financial institutions.

The unlisted equity investments and unlisted fund investments are determined by reference to recent transaction price of the investment or carried at valuations provided by financial institutions or related administrators.

The fair values of the derivative financial instruments, including foreign currency forward contracts and put options, are determined based on market values provided by financial institutions.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest bearing bank borrowings, other borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as financial assets at fair value through profit or loss, financial assets at amortised cost, other loan, finance lease receivables, trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and equity price risk. The Directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group adopts prudent strategies on its risk management. The Directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate risks relates primarily to the Group's borrowings with floating interest rates. The interest rates and terms of repayment of the Group's interest bearing bank borrowings are disclosed in note 30 to the financial statements. Interest rate risk is managed on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

For Hong Kong dollar borrowings, assuming the amount of bank borrowings outstanding at the end of the reporting period was outstanding for the whole year, a 100 basis point increase in interest rates would have decreased the Group's profit before tax for the current year by HK\$105.7 million (2017 - HK\$84.5 million) and finance cost capitalised by HK\$8.8 million (2017 - HK\$8.8 million). A 10 basis point decrease in interest rates would have increased the Group's profit before tax for the current year by HK\$10.6 million (2017 - HK\$8.4 million) and finance cost capitalised by HK\$0.9 million (2017 - HK\$0.9 million).

The sensitivity to the interest rates used above is considered reasonable with the other variables held constant.

Credit risk

The Group only grants credit after making credit risk assessments. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31st December, 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31st December, 2018. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs		Lifetime ECLs		Total HK\$'million
	Stage 1 HK\$'million	Stage 2 HK\$'million	Stage 3 HK\$'million	Simplified approach HK\$'million	
Other loan	1,329.3	–	–	–	1,329.3
Trade debtors*	–	–	–	140.6	140.6
Other financial assets included in debtors, deposits and prepayments					
- Normal#	159.5	–	–	–	159.5
Financial assets at amortised cost					
- Normal#	481.3	–	–	–	481.3
Restricted cash					
- Not yet past due	68.5	–	–	–	68.5
Pledged time deposits and bank balances					
- Not yet past due	24.0	–	–	–	24.0
Time deposits					
- Not yet past due	893.5	–	–	–	893.5
Cash and bank balances					
- Not yet past due	888.8	–	–	–	888.8
Corporate guarantees provided in respect of attributable share of banking facilities drawdown by certain subsidiaries of a joint venture	2,334.1	–	–	–	2,334.1
	<u>6,179.0</u>	<u>–</u>	<u>–</u>	<u>140.6</u>	<u>6,319.6</u>

Notes to Financial Statements (Cont'd)

- * For trade debtors to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.
- # The credit quality of the financial assets included in debtors, deposits and prepayments and financial assets at amortised cost is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 31st December, 2017

The Group's major exposure to the credit risk arises from the default of the trade debtors, with a maximum exposure equal to their carrying amounts.

The credit risk of the Group's other financial assets, which comprise cash, bank balances and deposits, financial assets at fair value through profit or loss, available-for-sale investments, held-to-maturity investments, derivative financial instruments, other loan, finance lease receivables and other financial assets included in debtors, deposits and prepayments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade debtors are widely dispersed in different sectors and industries (except for sales proceeds receivable from the disposal of properties).

Further quantitative data in respect of the Group's exposure to credit risk arising from trade debtors are disclosed in note 22 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking facilities. In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group will raise funds from different sources, including through the financial market or realisation of its assets, if required.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2018		
	Within 1 year or on demand HK\$'million	1 to 5 years HK\$'million	Total HK\$'million
Interest bearing bank borrowings	1,541.7	11,786.9	13,328.6
Other borrowings	58.4	2,953.7	3,012.1
Trade creditors	65.4	–	65.4
Other financial liabilities included in creditors, deposits received and accruals	278.8	97.0	375.8
Derivative financial instruments	1.0	–	1.0
Corporate guarantees provided in respect of attributable share of banking facilities drawdown by certain subsidiaries of a joint venture	2,334.1	–	2,334.1
	<u>4,279.4</u>	<u>14,837.6</u>	<u>19,117.0</u>

	2017		
	Within 1 year or on demand HK\$'million	1 to 5 years HK\$'million	Total HK\$'million
Interest bearing bank borrowings	1,604.3	8,809.7	10,414.0
Other borrowings	2,030.8	3,052.5	5,083.3
Trade creditors	76.1	–	76.1
Other financial liabilities included in creditors, deposits received and accruals	298.6	104.0	402.6
Derivative financial instruments	3.0	–	3.0
Corporate guarantees provided in respect of attributable share of banking facilities drawdown by certain subsidiaries of a joint venture	1,841.0	–	1,841.0
	<u>5,853.8</u>	<u>11,966.2</u>	<u>17,820.0</u>

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual listed and unlisted equity investments classified as financial assets at fair value through profit or loss (note 19) and unlisted equity investments classified as available-for-sale investments (note 18) at the end of the reporting period.

The following table demonstrates the sensitivity to every 5% change in the fair values of the equity investments that are carried at fair value, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the statement of profit or loss.

	Carrying amount of equity investments HK\$'million	Change in profit before tax HK\$'million	Change in equity* HK\$'million
2018			
Listed investments:			
– Financial assets at fair value through profit or loss	1,162.5	58.1	–
Unlisted investments at fair value:			
– Financial assets at fair value through profit or loss	107.6	5.4	–
2017			
Listed investments:			
– Held for trading	928.9	46.4	–
Unlisted investments at fair value:			
– Available-for-sale	269.1	–	13.5

* Excluding retained profits

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and enhance shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Capital represents equity attributable to equity holders of the parent. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements except for the obligation under the lease guarantees given by the Company in connection with the leasing of certain hotel properties from Regal REIT and the undertakings under corporate guarantees given by the Company for banking facilities granted to certain subsidiaries of a joint venture, to maintain a minimum consolidated tangible net worth, which has been complied with during the year. No changes were made in the objectives, policies or processes for managing capital during the years ended 31st December, 2018 and 31st December, 2017.

Notes to Financial Statements (Cont'd)

The Group monitors capital using a net debt to total assets ratio, which is net debt divided by the total assets. Net debt includes interest bearing bank borrowings and other borrowings less cash, bank balances and deposits. The net debt to total assets ratios as at the end of the reporting periods were as follows:

	2018 HK\$'million	2017 HK\$'million
Interest bearing bank borrowings and other borrowings	14,826.5	14,383.1
Less: Cash, bank balances and deposits	<u>(1,874.8)</u>	<u>(3,457.9)</u>
Net debt	<u>12,951.7</u>	<u>10,925.2</u>
Total assets	<u>31,737.9</u>	<u>31,248.5</u>
Net debt to total assets ratio	<u>40.8%</u>	<u>35.0%</u>

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 HK\$'million	2017 HK\$'million
NON-CURRENT ASSETS		
Investments in subsidiaries	<u>5,683.0</u>	<u>5,841.2</u>
CURRENT ASSETS		
Prepayments	0.3	0.1
Cash and bank balances	<u>1.7</u>	<u>1.5</u>
Total current assets	<u>2.0</u>	<u>1.6</u>
CURRENT LIABILITIES		
Creditors and accruals	<u>(4.8)</u>	<u>(7.4)</u>
NET CURRENT LIABILITIES	<u>(2.8)</u>	<u>(5.8)</u>
Net assets	<u>5,680.2</u>	<u>5,835.4</u>
EQUITY		
Issued capital	89.9	89.9
Reserves (note)	<u>5,590.3</u>	<u>5,745.5</u>
Total equity	<u>5,680.2</u>	<u>5,835.4</u>

Notes to Financial Statements (Cont'd)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK\$'million	Capital redemption reserve HK\$'million	Retained profits HK\$'million	Total HK\$'million
At 1st January, 2017	520.1	16.0	5,459.1	5,995.2
Repurchase and cancellation of ordinary shares	(115.4)	1.7	(1.7)	(115.4)
Loss for the year	–	–	(11.5)	(11.5)
Final 2016 dividend declared	–	–	(82.4)	(82.4)
Interim 2017 dividend	–	–	(40.4)	(40.4)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2017 and at 1st January, 2018	404.7	17.7	5,323.1	5,745.5
Loss for the year	–	–	(6.9)	(6.9)
Final 2017 dividend declared	–	–	(103.4)	(103.4)
Interim 2018 dividend	–	–	(44.9)	(44.9)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2018	<u>404.7</u>	<u>17.7</u>	<u>5,167.9</u>	<u>5,590.3</u>

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 26th March, 2019.

Independent Auditor's Report



To the shareholders of Regal Hotels International Holdings Limited

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Regal Hotels International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 77 to 186, which comprise the consolidated statement of financial position as at 31st December, 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Independent Auditor's Report (Cont'd)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

Impairment assessment of investments in joint ventures

As at 31st December, 2018, the carrying amount of the investments in joint ventures of HK\$3,539.9 million represented approximately 23% of the Group's net assets. The joint ventures were stated at the Group's share of net assets under the equity method of accounting, less any impairment losses, at each of the reporting dates.

The impairment assessment of investments in joint ventures is significant to our audit due to (i) the significance of the carrying amount of the joint ventures as at 31st December, 2018; and (ii) the determination of the recoverable amounts of the joint ventures is dependent on a range of estimates of the recoverable amounts of their underlying property development projects, such as estimated market prices, estimated costs to completion, estimated rental values, estimated future cash flows, discount rates and capitalisation rates.

The Group's accounting policies and disclosures of accounting estimates on impairment assessment of investments in joint ventures are included in notes 2.4 and 3 to the consolidated financial statements.

How our audit addressed the key audit matter

Our audit procedures included, among others, an evaluation of the management's impairment assessment of the joint ventures including the underlying property development projects, which were mainly based on discounted cash flow projections prepared by management of the joint ventures or valuations prepared by external valuers.

We involved our internal valuation specialists to evaluate the assumptions, valuation methodologies and parameters adopted in the valuation of the property development projects, among others, estimated market prices, estimated rental values, estimated future cash flows, discount rates and capitalisation rates, taking into consideration the selling prices and rental value of comparable properties, market conditions and trends, reliability of previous projections and historical evidence supporting underlying assumptions. In addition, we assessed the independence, objectivity and competence of the external valuers.

Key audit matter

Impairment assessment of certain non-financial assets

The Group holds several property development projects, hotel properties and aircraft in Hong Kong and overseas. As at 31st December, 2018, the carrying amount of properties under development/construction, hotel properties and aircraft amounted to HK\$3,386.4 million, HK\$15,442.5 million and HK\$405.7 million, respectively.

The impairment assessment of these non-financial assets is significant to our audit due to (i) the significance of the carrying amounts as at 31st December, 2018; and (ii) the determination of the recoverable amounts is dependent on a range of estimates, such as estimated selling prices and budgeted costs to complete property development projects, estimated room rates, estimated occupancy rates, estimated future cash flows, discount rates, capitalisation rates and estimated economic useful lives and residual values of aircraft.

The Group's accounting policies and disclosures of accounting estimates on impairment assessment of these non-financial assets are included in notes 2.4, 3, 13 and 15 to the consolidated financial statements.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

How our audit addressed the key audit matter

We discussed the progress of property development projects and business plans for hotel properties and aircraft with management. With the assistance from our internal valuation specialists, we also assessed the assumptions and estimates adopted in the discounted cash flow projections prepared by management or valuations performed by external valuers, such as estimated selling prices and budgeted costs to complete the property development projects, estimated room rates, estimated occupancy rates, estimated future cash flows, discount rates, capitalisation rates and estimated economic useful lives and residual values of aircraft, taking into consideration the selling prices and rental value of comparable properties/aircraft, market conditions and trends, reliability of previous projections and historical evidence supporting underlying assumptions. In addition, we assessed the independence, objectivity and competence of the external valuers.

Independent Auditor's Report (Cont'd)

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report (Cont'd)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yen, Kai Shun, Catherine.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

26th March, 2019

Schedule of Principal Properties

As at 31st December, 2018

PROPERTIES FOR DEVELOPMENT AND/OR SALE

	Description	Use	Approx. area	Stage of completion (completion date of development project)	Percentage of interest attributable to the Company
(1)	Certain luxury residential houses at Regalia Bay, 88 Wong Ma Kok Road, Stanley, Hong Kong	Residential	Site area for the whole development - approx. 53,126 sq. m. (571,848 sq. ft.) Gross area of 3 remaining houses held - approx. 1,433 sq. m. (15,420 sq. ft.)	Completed in March 2004	100
(2)	Site A1a of SKYCITY (Chek Lap Kok Lot No.3) Hong Kong International Airport, Chek Lap Kok, New Territories, Hong Kong	Hotel	Site area - approx. 6,650 sq. m. (71,580 sq. ft.) Gross floor area - approx. 33,700 sq. m. (362,750 sq. ft.) (1,208 guestrooms and suites)	Superstructure works in progress (expected to be completed in late 2020)	100
(3)	Nos.150-162 Queen's Road West, Hong Kong	Commercial/residential	Site area - approx. 682 sq. m. (7,342 sq. ft.) Gross floor area - approx. 5,842 sq. m. (62,883 sq. ft.)	General building plans approved; demolition works of the existing buildings will soon commence (expected to be completed by 2021)	100
(4)	Nos.5-7 Bonham Strand West and Nos.169-171 Wing Lok Street, Sheung Wan, Hong Kong	Hotel	Site area - approx. 345 sq. m. (3,710 sq. ft.) Gross floor area - approx. 5,236 sq. m. (56,360 sq. ft.) and covered floor area - approx. 6,420 sq. m. (69,120 sq. ft.) (98 guestrooms and suites (totally 162 room bays))	Superstructure works substantially finished (scheduled for completion in the second half of 2019)	50

Schedule of Principal Properties (Cont'd)

As at 31st December, 2018

Description	Use	Approx. area	Stage of completion (completion date of the development project)	Percentage of interest attributable to the Company
(5) Domus and Casa Regalia Nos.65-89 Tan Kwai Tsuen Road, Yuen Long, New Territories, Hong Kong	Residential	Site area for the whole development at Nos.65-89 Tan Kwai Tsuen Road - approx. 11,192 sq. m. (120,470 sq. ft.) Gross floor area of remaining 1 residential unit and 12 houses held - approx. 3,076 sq. m. (33,107 sq. ft.)	Occupation permit issued in November 2015 Certificate of compliance obtained in April 2016	50
(6) Mount Regalia 23 Lai Ping Road, Kau To, Sha Tin, New Territories, Hong Kong	Residential	Site area - approx. 17,476 sq. m. (188,100 sq. ft.) Gross floor area - approx. 32,474 sq. m. (349,547 sq. ft.) (approx. 136 units, 24 houses and 197 car parking spaces)	Occupation permit issued in September 2018 Certificate of compliance obtained in February 2019	50
(7) The Ascent No.83 Shun Ning Road, Sham Shui Po, Kowloon, Hong Kong	Commercial/ residential	Site area - approx. 824.9 sq. m. (8,879 sq. ft.) 2 remaining residential units and 4 commercial units (gross floor area - approx. 1,067 sq. m. (11,476 sq. ft.)) and 13 car parking spaces held	Occupation permit issued in March 2018 Certificate of compliance obtained in July 2018	50
(8) iclub Mong Kok Hotel 2 Anchor Street, Tai Kok Tsui, Kowloon, Hong Kong	Hotel	Site area - approx. 725.5 sq. m. (7,809 sq. ft.) Gross floor area - approx. 6,529 sq. m. (70,278 sq. ft.) and covered floor area - approx. 9,355 sq. m. (100,697 sq. ft.) (288 guestrooms)	Occupation permit issued in October 2018 Soft opened for business in March 2019	50

Schedule of Principal Properties (Cont'd)

As at 31st December, 2018

	Description	Use	Approx. area	Stage of completion (completion date of development project)	Percentage of interest attributable to the Company
(9)	Nos.291-293 (interests in 70% undivided shares) and Nos.301-303 (100% ownership interests) Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong	Commercial/ residential	Site area – approx. 488 sq. m. (5,260 sq. ft.) Gross floor area of the proposed new development – approx. 4,395 sq. m. (47,304 sq. ft.)	In planning stage	50
(10)	Nos.9-15 (100% ownership interests) and Nos.17-19 (interests in over 80% undivided shares) Kam Wa Street, Shau Kei Wan, Hong Kong	Commercial/ residential	Site area – approx. 518 sq. m. (5,580 sq. ft.) Gross floor area of the proposed new development – approx. 4,665 sq. m. (50,220 sq. ft.)	In planning stage	50
(11)	Fabrik Rua Dos Fanqueiros 156, Lisbon, Portugal	Commercial/ residential	Gross development area - approx. 1,836 sq. m. (19,768 sq. ft.)	Design for the renovation programme approved and renovation works expected to commence in 2nd quarter of 2019 (renovation works expected to be completed in 2020)	90

Schedule of Principal Properties (Cont'd)

As at 31st December, 2018

Description	Use	Approx. area	Stage of completion (completion date of development project)	Percentage of interest attributable to the Company
(12) Regal Cosmopolitan City at south of Xindu Main Road and both sides of Xingle Road, Banqiao Village, Xindu County, Xindu District, Chengdu, Sichuan Province, PRC	Hotel/office and commercial complex/residential	<p>Site area for the whole development - approx. 111,869 sq. m. (1,204,148 sq. ft.)</p> <p>Stages one and two</p> <ul style="list-style-type: none"> a 298-room hotel remaining 37 residential units, 811 car parking spaces, and commercial accommodation (Total gross floor area – approx. 9,692 sq. m. (104,375 sq. ft.)) <p>Stage three</p> <ul style="list-style-type: none"> a six-storey commercial complex with gross floor area of approx. 48,000 sq. m. (516,700 sq. ft.) and five towers of office accommodations with gross floor area of approx. 90,500 sq. m. (974,100 sq. ft.) 10 residential towers having 1,555 units with total gross floor area of approx. 175,478 sq. m. (1,888,850 sq. ft.) 	<p>Stages one and two</p> <ul style="list-style-type: none"> Construction works for 9 residential towers having 1,296 residential units completed in 2017 Hotel portion scheduled to open in phases from first half of 2020 <p>Stage three</p> <ul style="list-style-type: none"> Updated scheme design of commercial and office accommodations approved and construction works planned to commence in late 2019 (expected to be completed in 2023) Construction works for 10 residential towers in steady progress (expected to be completed in 2021) 	33.76

Schedule of Principal Properties (Cont'd)

As at 31st December, 2018

Description	Use	Approx. area	Stage of completion (completion date of development project)	Percentage of interest attributable to the Company
(13) Regal Renaissance at the intersection between Weiguo Road and Xinkai Road, Hedong District, Tianjin, PRC	Commercial/ office/ residential	<p>Site area for the whole development - approx. 31,700 sq. m. (341,000 sq. ft.)</p> <ul style="list-style-type: none"> remaining 32 residential units, 546 commercial and office units, and 1,230 car parking spaces (Total gross floor area – approx. 82,743 sq. m. (891,076 sq. ft.)) 	<p>Residential towers, commercial complex and residential car parking spaces completed in 1st quarter of 2018</p> <p>Superstructure works of two office towers expected to be resumed in 2nd quarter of 2019</p>	33.76

Schedule of Principal Properties (Cont'd)

As at 31st December, 2018

PROPERTIES FOR INVESTMENT

	Description	Use	Lease	Percentage of interest attributable to the Company
(1)	11 luxury residential houses at Regalia Bay, 88 Wong Ma Kok Road, Stanley, Hong Kong	Residential	Medium term	100
(2)	Regal Airport Hotel 9 Cheong Tat Road, Hong Kong International Airport, Chek Lap Kok, New Territories, Hong Kong	Hotel	Medium term	74.58
(3)	Regal Hongkong Hotel 88 Yee Wo Street, Causeway Bay, Hong Kong	Hotel	Long term	74.58
(4)	Regal Kowloon Hotel 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong	Hotel	Long term	74.58
(5)	Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and the whole of 1/F, Po Sing Court, 21-25 Shek Ku Lung Road, 40-42 Sa Po Road and 15-29 Carpenter Road, Kowloon City, Kowloon, Hong Kong	Hotel	Medium term	74.58
(6)	Regal Riverside Hotel 34-36 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong	Hotel	Medium term	74.58

Schedule of Principal Properties (Cont'd)

As at 31st December, 2018

	Description	Use	Lease	Percentage of interest attributable to the Company
(7)	iclub Wan Chai Hotel Shops A, B and C on G/F, Flat Roof on 3/F, Whole of 5-12/F, 15-23/F and 25-29/F, Eastern and Western Elevations of External Walls, Architectural Feature at Roof Top and Upper Roof, 211 Johnston Road, Wanchai, Hong Kong	Hotel/ commercial	Long term	74.58
(8)	iclub Sheung Wan Hotel 138 Bonham Strand, Sheung Wan, Hong Kong	Hotel	Long term	74.58
(9)	iclub Fortress Hill Hotel 18 Merlin Street, North Point, Hong Kong	Hotel	Long term	74.58
(10)	iclub Ma Tau Wai Hotel 8 Ha Heung Road, To Kwa Wan, Kowloon, Hong Kong	Hotel	Long term	74.58
(11)	Campus La Mola Cami dels Plans de Can Bonvilar s/n, 08227 - Terrassa, Barcelona, Spain	Hotel	Freehold land	100
(12)	We Go MALL No.16 Po Tai Street, Ma On Shan, Sha Tin, New Territories, Hong Kong	Commercial	Medium term	50
(13)	Certain commercial units of Phases 1 and 2 of Regal Renaissance, Intersection of Xinkai Road and Weiguo Road, Hedong District, Tianjin, PRC	Commercial	Medium term	33.76

Published Five Year Financial Summary

A summary of the results and of the assets, liabilities, perpetual securities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

RESULTS

	Year ended 31st December,				
	2018 HK\$'million	2017 HK\$'million	2016 HK\$'million	2015 HK\$'million	2014 HK\$'million
Revenue	<u>2,614.1</u>	<u>2,560.6</u>	<u>2,617.1</u>	<u>2,471.8</u>	<u>2,298.6</u>
Operating profit before depreciation	1,327.4	1,814.7	987.1	1,046.3	1,160.4
Depreciation	(512.9)	(503.5)	(530.3)	(511.2)	(453.5)
Finance costs	(381.4)	(368.6)	(395.4)	(330.3)	(332.6)
Share of profits and losses of:					
Joint ventures	174.1	146.4	233.1	14.2	(20.9)
Associates	0.4	(3.3)	(12.4)	(22.2)	96.7
Profit before tax	607.6	1,085.7	282.1	196.8	450.1
Income tax	(40.8)	(87.4)	(41.3)	(36.9)	6.6
Profit for the year before allocation between equity holders of the parent and non-controlling interests	<u>566.8</u>	<u>998.3</u>	<u>240.8</u>	<u>159.9</u>	<u>456.7</u>
Attributable to:					
Equity holders of the parent	547.7	982.1	213.7	119.0	410.3
Non-controlling interests	19.1	16.2	27.1	40.9	46.4
	<u>566.8</u>	<u>998.3</u>	<u>240.8</u>	<u>159.9</u>	<u>456.7</u>

Published Five Year Financial Summary (Cont'd)

ASSETS, LIABILITIES, PERPETUAL SECURITIES AND NON-CONTROLLING INTERESTS

	31st December,				
	2018 HK\$'million	2017 HK\$'million	2016 HK\$'million	2015 HK\$'million	2014 HK\$'million
Property, plant and equipment	18,529.9	18,566.9	15,330.7	15,875.6	16,052.8
Investment properties	1,147.2	1,144.7	1,026.0	1,070.0	1,074.0
Properties under development	897.9	762.8	–	–	–
Investments in joint ventures	3,539.9	3,030.8	3,146.8	3,327.6	3,258.5
Investments in associates	16.5	15.8	6.5	125.1	131.1
Available-for-sale investments	–	294.1	236.6	133.4	106.8
Financial assets at fair value through profit or loss	550.1	1.9	1.9	1.9	1.9
Other loan	1,062.0	1,062.0	1,350.0	–	–
Finance lease receivables	–	–	36.8	–	–
Debtors and deposits	5.7	10.5	5.4	5.4	1,390.0
Deferred tax assets	42.9	51.7	94.0	79.1	62.4
Current assets	<u>5,945.8</u>	<u>6,307.3</u>	<u>6,564.7</u>	<u>4,724.5</u>	<u>3,772.4</u>
Total assets	<u>31,737.9</u>	<u>31,248.5</u>	<u>27,799.4</u>	<u>25,342.6</u>	<u>25,849.9</u>
Current liabilities	(1,669.8)	(3,811.0)	(3,035.0)	(740.3)	(994.0)
Creditors and deposits received	(97.0)	(104.0)	(135.6)	(147.0)	(27.8)
Interest bearing bank borrowings	(10,925.8)	(8,376.1)	(6,170.7)	(6,187.0)	(6,362.1)
Other borrowings	(2,725.9)	(2,713.7)	(4,621.3)	(4,241.9)	(4,234.3)
Deferred tax liabilities	(883.8)	(921.4)	(954.6)	(1,004.8)	(1,034.7)
Total liabilities	<u>(16,302.3)</u>	<u>(15,926.2)</u>	<u>(14,917.2)</u>	<u>(12,321.0)</u>	<u>(12,652.9)</u>
Perpetual securities	<u>(1,732.9)</u>	<u>(1,732.9)</u>	–	–	–
Non-controlling interests	<u>(838.6)</u>	<u>(942.5)</u>	<u>(1,053.8)</u>	<u>(1,158.6)</u>	<u>(1,251.8)</u>





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