百利保控股有限公司

# Paliburg Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code : 617)

# ANNUAL REPORT 2018

# Contents

# Corporate Information

## DIRECTORS

***Executive Directors***

Lo Yuk Sui
(Chairman and Chief Executive Officer)
Jimmy Lo Chun To
(Vice Chairman and Managing Director)
Donald Fan Tung
(Chief Operating Officer)
Lo Po Man
Kenneth Ng Kwai Kai
Kenneth Wong Po Man

***Independent Non-Executive Directors***

Bowen Joseph Leung Po Wing, GBS, JP
Winnie Ng, JP
Abraham Shek Lai Him, GBS, JP
Wong Chi Keung

## AUDIT COMMITTEE

Wong Chi Keung (Chairman)
Bowen Joseph Leung Po Wing, GBS, JP
Winnie Ng, JP
Abraham Shek Lai Him, GBS, JP

## REMUNERATION COMMITTEE

Wong Chi Keung (Chairman)
Lo Yuk Sui
Winnie Ng, JP

## NOMINATION COMMITTEE

Lo Yuk Sui (Chairman)
Bowen Joseph Leung Po Wing, GBS, JP
Winnie Ng, JP
Abraham Shek Lai Him, GBS, 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
Australia and New Zealand Banking Group Limited
United Overseas Bank Limited, Hong Kong Branch
Industrial and Commercial Bank of China (Asia) Limited

## PRINCIPAL REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building, 69 Pitts Bay Road
Pembroke HM08, Bermuda

## BRANCH REGISTRAR IN HONG KONG

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
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
Fax: 2890 1697
Website: www.paliburg.com.hk

# Directors' Profile

***Mr. Lo Yuk Sui**, aged 74; Chairman and Chief Executive Officer* — Chairman and Managing Director since 1993 and designated as the Chief Executive Officer in 2007. Mr. Lo has been the managing director and the chairman of the predecessor listed companies of the Group since 1984 and 1986, respectively. 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, Regal Hotels International Holdings Limited ("RHIHL") and Cosmopolitan International Holdings Limited ("Cosmopolitan"), both listed subsidiaries 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 RHIHL). 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 Mr. Jimmy Lo Chun To and Miss Lo Po Man.

***Mr. Lo Chun To (Alias: Jimmy)**, aged 45; Vice Chairman and Managing Director* — Appointed to the Board in 1999. Mr. Jimmy Lo has been a Vice Chairman and Managing Director of the Company since 2013. He is also an executive director and a vice chairman of CCIHL, an executive director of RHIHL, an executive director, 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 Group's property projects in the People's Republic of China (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. Fan Tung, Donald**, aged 62; Executive Director and Chief Operating Officer* — Appointed to the Board in 1993 and designated as the Chief Operating Officer in 2007. Mr. Donald Fan is also an executive director of CCIHL and RHIHL and a non-executive director of RPML. Mr. Fan is a qualified architect and has been with the Group since 1987. He is principally involved in the Group's property development, architectural design and project management functions as well as overseeing the building construction business of the Group.

***Mr. Leung Po Wing, Bowen Joseph, GBS, JP**, aged 69; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2008. Mr. Leung is also an independent non-executive director of RPML. Mr. Leung previously served the Hong Kong Government for over 32 years until his retirement as the Director of the Office of the Government of the Hong Kong Special Administrative Region in Beijing ("Beijing Office") in November 2005. He joined the Administrative Service in June 1973 and rose to the rank of Administrative Officer Staff Grade A1 in June 1996. During his service in the Administrative Service, Mr. Leung had served in various policy bureaux and departments. Senior positions held by Mr. Leung included: Deputy Secretary for District Administration (later retitled as Deputy Secretary for Home Affairs); Deputy Secretary for Planning, Environment and Lands; Private Secretary, Government House, Secretary for Planning, Environment and Lands and Director of the Beijing Office. Mr. Leung has extensive experience in corporate leadership and public administration. During his tenure as the Director of the Beijing Office, he had made commendable efforts in promoting Hong Kong in the Mainland, as well as fostering closer links and co-operation between Hong Kong and the Mainland. Mr. Leung is an independent non-executive director and a member of the Audit Committee of Green Leader Holdings Group Limited and Quali-Smart Holdings Limited, both of which are companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

***Miss Lo Po Man**, aged 39; Executive Director* — Appointed to the Board in 2007. Miss Lo is also an executive director and a vice chairman of CCIHL, an executive director, a vice chairman and the managing director of RHIHL, 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 joined the RHIHL Group in 2000 and is an experienced executive in sales and marketing and corporate management. She oversees the sales and marketing functions of the RHIHL 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.

***Mr. Ng Kwai Kai (Alias: Kenneth)**, aged 64; Executive Director* — Appointed to the Board in 1995. Mr. Kenneth Ng is also an executive director and the chief operating officer of CCIHL, an executive director of RHIHL and Cosmopolitan, and a non-executive director of RPML. Mr. Ng has been with the Group since 1985 and is in charge of the corporate finance, company secretarial and administrative functions of the Century City Group. Mr. Ng is a Chartered Secretary.

***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 RHIHL 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.

***Hon Shek Lai Him, Abraham (Alias: Abraham Razack), GBS, JP**, aged 73; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2002. Mr. Abraham Shek is also an independent non-executive director of Cosmopolitan and RPML. Mr. Shek holds a Bachelor's Degree of Arts. Mr. Shek is currently a member of the Legislative Council of the Hong Kong Special Administrative Region. He is also a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption of Hong Kong, a member of the Court of The Hong Kong University of Science and Technology, a member of both of the Court and the Council of The University of Hong Kong, and a non-executive director of the Mandatory Provident Fund Schemes Authority. Mr. Shek is the chairman and an independent non-executive director of Chuang's China Investments Limited, the vice chairman, an independent non-executive director and a member of the audit committee of ITC Properties Group Limited, an independent non-executive director and a member of the audit committee of China Resources Cement Holdings Limited, Chuang's Consortium International Limited, Country Garden Holdings Company Limited, CSI Properties Limited, Everbright Grand China Assets Limited, Lifestyle International Holdings Limited, NWS Holdings Limited and SJM Holdings Limited, and an independent non-executive director of Goldin Financial Holdings Limited, Hop Hing Group Holdings Limited, Lai Fung Holdings Limited and MTR Corporation Limited, all of which companies are listed on the Stock Exchange. He is also an independent non-executive director and a member of the audit committee of Eagle Asset Management (CP) Limited, the manager of Champion Real Estate Investment Trust (which is listed on the Stock Exchange).

***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 RHIHL. 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 Securities and Futures Ordinance of Hong Kong. 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.

***Mr. Wong Po Man (Alias: Kenneth)**, aged 53; Executive Director* — Appointed to the Board in 2007. Mr. Kenneth Wong is also an executive director and the chief operating officer of Cosmopolitan. Mr. Wong graduated from The University of Hong Kong with a Bachelor of Arts Degree in Architectural Studies and a Bachelor's Degree of Architecture. He also holds a Master of Science Degree in Real Estates from The University of Hong Kong. Mr. Wong is a qualified architect and has been with the Group for over 26 years. He has been involved in architectural design and project management in respect of various property development projects of the Group and is also the Technical Director of Chatwin Engineering Limited, the construction arm of the Group, registered under the Buildings Ordinance.

# 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$321.0 million, as compared to the profit of HK$528.5 million attained in the preceding year.

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 Group's property and hotel operation businesses have performed satisfactorily and generated gross profit higher than that attained in the prior year. The decrease in the profit for the year was principally due to the fact that in 2017, the Group recorded significantly larger fair value gains on its portfolio of investment properties as compared to those in the year under review and, as affected by the downturn of the debt and capital markets, particularly in the second half of the year, the Group incurred fair value losses in its financial assets investment business during the year, as opposed to a profit contribution in 2017.

Gross profit from its business operations, including those from all of its subsidiary undertakings, amounted to HK$2,002.1 million, as compared to HK$1,238.8 million in 2017. Operating profit before depreciation and amortisation, finance costs and tax for the year amounted to HK$1,603.0 million, which was comparatively lower than the corresponding amount of HK$1,746.1 million in the preceding year due to the reasons explained above. As the Group's hotel properties in Hong Kong are all owned and operated within the Group, they are classified in the Group's consolidated financial statements as property, plant and equipment and are subject to depreciation charges to conform to applicable accounting standards. Accordingly, depreciation charges in the amount of HK$543.7 million have been provided on these hotel properties for the year (2017 - HK$525.6 million) which, although having no impact on the Group's cash flow, have nevertheless affected the reported results.

Supplementary information showing the adjusted net asset value of the Company of HK$15.97 per share as at 31st December, 2018, after adjusting for the market value of the hotel properties in Hong Kong on the basis therein presented, is contained in the paragraph headed "Assets Value" in the section headed "Management Discussion and Analysis" in this Annual Report.

## BUSINESS OVERVIEW

The Group comprises a total of four listed entities, with diversified business interests in properties, hotels, aircraft ownership and leasing and financial assets and other investments.

As at 31st December, 2018, the Group directly held a controlling shareholding interest of approximately 69.3% in Regal Hotels International Holdings Limited which, in turn, held approximately 74.6% of the outstanding units of Regal Real Estate Investment Trust, a listed subsidiary of Regal that operates as the hotel owning entity.

The Group's property development and investment businesses in Hong Kong are principally undertaken through P&R Holdings Limited, a joint venture 50:50 held by each of the Company and Regal. As Regal is a listed subsidiary of the Company, P&R Holdings is effectively also a subsidiary of the Group.

Apart from its property development and investment businesses, P&R Holdings also held as at 31st December, 2018 an effective controlling shareholding interest of approximately 75.7% in Cosmopolitan International Holdings Limited (comprising interests in its ordinary shares and convertible preference shares) and, in addition, convertible bonds of Cosmopolitan. Cosmopolitan is consequently also a listed member of the Group, which principally focuses on property development and investment and other investment businesses in the People's Republic of China.

Subsequent to the year-end date, a wholly owned subsidiary of P&R Holdings entered into Share Swap Agreements with three independent third parties in January 2019, pursuant to which P&R Holdings group sold an aggregate of 350 million ordinary shares of Cosmopolitan to the independent third parties, in exchange for their holdings in 200 million shares in Beijing Sports and Entertainment Industry Group Limited, a company listed on The Stock Exchange of Hong Kong Limited. The 350 million Cosmopolitan shares represent approximately 7.9% of the issued ordinary shares of Cosmopolitan and the share swap was based on an agreed value of HK$1.50 per Cosmopolitan share. Following the completion of the share swap arrangements, the shareholding interests of P&R Holdings group held in the issued ordinary share capital of Cosmopolitan has been reduced to 54.9%, which helped to increase the public float of Cosmopolitan.

Further information on the latest progress of the Group's property business as well as the financial results and operational review of Regal (including Regal REIT) and Cosmopolitan are presented below.

## 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.

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 occupation permit and certificate of compliance for this development has been issued in September 2018 and February 2019, respectively. The marketing and sale programme for the houses and apartment units will be formally launched shortly.

Two of the development projects undertaken by P&R Holdings have been duly completed during 2018 which are, respectively, the "We Go MALL" shopping mall development that was soft opened in May 2018 and "The Ascent" commercial and residential joint venture development with the Urban Renewal Authority of Hong Kong, the certificate of compliance of which was issued in July 2018.

Most of the lettable space at the "We Go MALL" has been leased out or occupied and is generating satisfactory rental revenues. On the other hand, nearly all of the residential units in "The Ascent" have been sold and the profits from these unit sales have been reflected in the results of the Group under review. The commercial units are planned to be tendered for sale in the second quarter of 2019.

Two other current projects of P&R Holdings are for the development of hotels, one of which is located in Tai Kok Tsui, Kowloon and the other in Sheung Wan, Hong Kong. The hotel development in Tai Kok Tsui has recently been completed and soft opened for business operations after the issue of the business licence earlier this month. The hotel, named as the "iclub Mong Kok Hotel", is being managed by a wholly owned subsidiary of Regal. The other hotel development in Sheung Wan is proposed to be named as the "iclub Sheung Wan II Hotel" and is scheduled to be completed in the second half of 2019.

As reported before, P&R Holdings acquired certain existing properties at Castle Peak Road in Cheung Sha Wan in October 2018, which are intended for a commercial/residential development. Most recently, P&R Holdings has further completed the acquisition of certain existing properties in Shau Kei Wan, which are also intended for a commercial/residential development.

P&R Holdings will continue to take steps to further replenish its land bank, both by way of acquisition of existing properties with development potentials as well as through participations in government land tenders.

In the meanwhile, the property development business of the Group in China is undertaken through the Cosmopolitan group.

Additional information on the Group's property development projects and properties, including those undertaken by P&R Holdings, Regal and Cosmopolitan, are contained in the section headed "Management Discussion and Analysis" in this Annual Report.

## REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

For the year ended 31st December, 2018, Regal achieved consolidated profit attributable to shareholders of HK$547.7 million, while the profit recorded in the preceding year was HK$982.1 million. Although the profit achieved for the year under review was substantially lower than that recorded in 2017, the business operations of the Regal 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 Regal 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 its 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. Total depreciation charges provided by Regal on its 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 its reported profits.

## 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 Regal 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 Regal group also owns a 186-room hotel in Barcelona, Spain, formerly known as the La Mola Hotel & Conference Centre and self-operated by the Regal 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 Regal group held approximately 74.6% of the total outstanding issued units of Regal REIT, while Regal Portfolio Management Limited, a wholly owned subsidiary of Regal, 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 Regal 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 Regal. 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 Regal, 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 in September 2017. This hotel has also been leased to the Regal 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 Regal 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 Regal 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 Regal 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 Regal 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 Regal 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 Regal group's marketing and reservation networks on the internet and other platforms.

**PROPERTIES**

The Regal group holds a 50% joint venture interest in P&R Holdings. As mentioned before, the Regal 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 Regal 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.

**AIRCRAFT OWNERSHIP AND LEASING**

In April, 2018, the Regal 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, it disposed of one Airbus A321-211 and four Embraer ERJ145 aircraft to three independent buyers. In December 2018, it also 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 Regal 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 Regal group. At present, the Regal group owns a fleet of 3 aircraft which are all on operating leases.

## COSMOPOLITAN INTERNATIONAL HOLDINGS LIMITED

For the year ended 31st December, 2018, Cosmopolitan achieved profit attributable to shareholders of HK$201.9 million, representing an increase of more than 13 times over the HK$13.7 million attained in 2017. The significant increase in the profit achieved for the year was principally attributable to the profit realised on the completed sales of the residential units in the development project in Tianjin, the People's Republic of China.

## BUSINESS OVERVIEW

The Cosmopolitan group's core business activities will continue to be focused in China and, in particular, the two ongoing development projects in Chengdu, Sichuan Province and in Tianjin.

During the year under review, the GDP of China grew by 6.6% over 2017. The growth in the GDP of China has however notably moderated from 6.8% in the first quarter to 6.4% in the fourth quarter of 2018, which to certain extent reflected the adverse impact on the economy caused by the trade disputes between the United States and China, with the mutual imposition of trade tariffs beginning in July 2018. Faced with the challenges emanating from the increased uncertainties and complications in the external economic environment, it is generally expected that the Central Government of China will initiate policies and measures to stimulate domestic demands, with an aim to maintaining economic growth. Recently, the Central Government has set a target for the economy of China to grow by 6-6.5% in 2019. Although this targeted growth rate may be low as compared to the growth trend of China over the past two decades, it is already a high benchmark as compared to those of other major countries.

Following the introduction of a series of stringent restrictive policies to deter speculative activities, the property market in China as a whole started to cool down in the latter part of 2018. It is expected that the policies of the Central Government will continue to be tilted towards the maintenance of stability in the overall property market, particularly in the residential sector. Under this environment, the overall volume of property transactions in 2019 may see some contraction as compared to the levels in 2018 but the market consolidation effects will likely be less significant in the first and second tier cities due to the strong underlying demands.

As regarding the two ongoing development projects of the Cosmopolitan group in China, namely, the Regal Cosmopolitan City in Chengdu and the Regal Renaissance in Tianjin, they are both progressing satisfactorily.

Nearly all of the residential units in the nine residential towers in the first and second stages of the Regal Cosmopolitan City development project have been sold and handed over to the purchasers. Most of the profits realised from these unit sales have been reflected in the results of the Cosmopolitan group in the preceding year and a minority portion accounted for in the year under review. The construction works for the ten remaining residential towers comprised in the third stage of the development project are progressing steadily and the presale of the residential units in two of the residential towers has recently been launched. In the meanwhile, the business remodeling works of the hotel have been completed and the hotel is now scheduled to be opened in phases from the first half of 2020.

As reported earlier, most of the units in the four residential towers within the Regal Renaissance development project have been sold and handed over to the purchasers during the year. The profits achieved by the Cosmopolitan group for the year under review were primarily attributable to the profit contribution from these unit sales. The commercial complex was formally opened in December 2018. While certain parts of the commercial complex have been leased out for rental income, contracts for sale have been secured for some of the shop units. The construction works for the two office towers are expected to be resumed in the second quarter of 2019 and presale programme of the office accommodations is planned to be launched before the end of this year.

Further detailed information on these two development projects as well as the reforestation and land grant project in Urumqi, Xinjiang is contained in the section headed "Management Discussion and Analysis" in this Annual Report.

As mentioned in the 2018 Interim Report of the Company, the Cosmopolitan group entered into a Deposit Agreement in August 2018 in relation to the possible investment by the Cosmopolitan group in a sizeable logistics services provider that is principally operating logistics and express delivery services and the development and operation of logistics parks in China. Pursuant to the Deposit Agreement, the Cosmopolitan group has paid a deposit of RMB70 million to the vendor and was granted an exclusivity period of 18 months to conduct bona fide negotiations to settle the terms of the possible joint venture investment. Following further negotiations with the vendor, the Cosmopolitan group has agreed to increase the deposit under the Deposit Agreement from RMB70 million to RMB170 million and to grant loan facilities to the target investee company in an aggregate loan amount of RMB150 million. The deposits and the loan amounts outstanding under the loan facilities are primarily secured by equity pledges over certain PRC companies associated with the vendor, guarantees provided by the vendor and certain of his associates, and pledges over the receivables of the target investee company and certain associates of the vendor.

The negotiations with the vendor on the detailed terms of the proposed joint venture investment are still ongoing and further announcements will be made by Cosmopolitan as and when the investment proposals are finalised.

## OUTLOOK

### REGAL GROUP

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 Regal 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.

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

### COSMOPOLITAN GROUP

The presale of the units in the two residential towers comprised within the third stage of the Regal Cosmopolitan City in Chengdu has been progressing satisfactorily, commanding unit prices well above the average selling price fetched in the earlier sale of the residential units in the first and second stages of the development. If all the residential units in the third stage of the development are sold at the current going price level, substantial cash flow and development profits will be generated for the Cosmopolitan group.

The Cosmopolitan group will continue to work on appropriate investment opportunities that can serve to expand its business and earnings base.

## PALIBURG GROUP

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. On the progressive disposals of the garden houses and apartment units in the project, substantial contributions of cash flow and development profits will be generated for the Group.

Moreover, with the completion of the "We Go MALL" last year, P&R Holdings is building up a recurring income base that can complement its development profits.

Over the past years, the Group as a whole has substantially grown in size and diversity and many of the projects undertaken are gradually coming to the stage of fruition. The Directors are optimistic of the future prospects of the Group and that increasing returns will be generated for the shareholders.

## DIRECTORS AND STAFF

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

**LO YUK SUI**
Chairman

Hong Kong
26th March, 2019

# 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

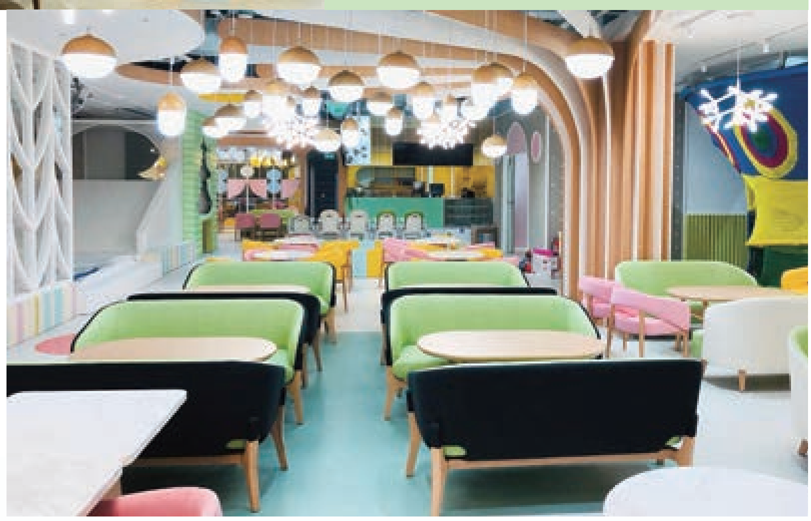
Racing Hero at We Go MALL

We Go MALL – garden roof

# RESIDENTIAL / COMMERCIAL DEVELOPMENTS

## HONG KONG

WhizBo Kids Café at We Go MALL




Metro Café at We Go MALL

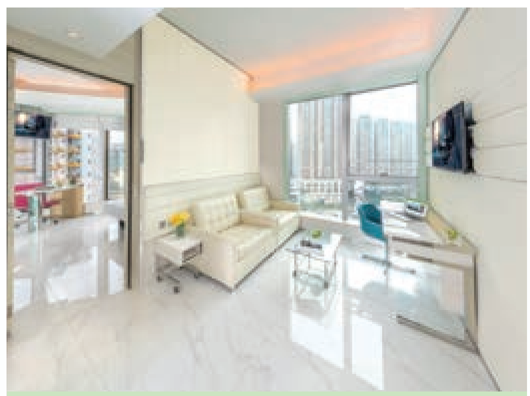

Metro Asia at We Go MALL

# HOTEL DEVELOPMENTS

## HONG KONG

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

Lobby at iclub Mong Kok Hotel



iBusiness Premier at iclub Mong Kok Hotel

iLounge at iclub Mong Kok Hotel

# HOTEL DEVELOPMENTS

## HONG KONG

New hotel project to be named as "Regala Skycity Hotel" at Chek Lap Kok Lot No. 3, Hong Kong International Airport (*)

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" – superstructure works substantially finished

Regala Skycity Hotel – superstructure works in progress

* Artist impression

# HOTEL DEVELOPMENTS

## HONG KONG

Main Entrance at Regala Skycity Hotel (*)

Restaurant at Regala Skycity Hotel (*)

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

* 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

# Management Discussion and Analysis

## BUSINESS REVIEW

The Group's significant investments and principal business activities mainly comprise property development and investment, construction and building related businesses, hotel ownership, hotel operation and management, asset management, aircraft ownership and leasing and other investments including financial assets investments.

The significant investments and business interests of Regal Hotels International Holdings Limited ("RHIHL"), the principal listed subsidiary of the Group, 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 investment businesses.

Cosmopolitan International Holdings Limited ("Cosmopolitan") is a listed subsidiary of the Group held through P&R Holdings. The principal business activities of the Cosmopolitan group comprise property development and investment and other investments, which are mainly focused in the People's Republic of China (the "PRC"), and investment in financial assets.

The performance of the Group's property, construction and building related and other investment businesses, and the principal businesses of RHIHL and Regal REIT as well as those of Cosmopolitan during the year under review, the commentary on the hotel and property sectors in which the Group operates and the changes in the general market conditions and the potential impact on their operating performances and future prospects are contained in the preceding Chairman's Statement and in this Management Discussion and Analysis.

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.

## P&R HOLDINGS LIMITED

P&R Holdings is a 50:50 owned joint venture established with RHIHL, with capital contributions provided by the Company and RHIHL on a pro-rata basis in accordance with their respective shareholdings in P&R Holdings. P&R Holdings is effectively a subsidiary of the Company and its 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.

*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).

## REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

RHIHL is a listed subsidiary of the Company. Further information relating to the property projects undertaken and the principal properties owned by the RHIHL group, which (except for the property project in Portugal) are all wholly owned by RHIHL, 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 RHIHL 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 RHIHL 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 RHIHL 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 RHIHL group in 2014. It has a total of 186 rooms and was formerly operated by the RHIHL 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 RHIHL 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.

## 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 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.

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 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.

## CONSTRUCTION AND BUILDING RELATED BUSINESSES

The Group's wholly owned construction arm, Chatwin Engineering Limited ("Chatwin"), was the main contractor for the construction of P&R Holdings' hotel developments at Bonham Strand, Sheung Wan (now operating as the iclub Sheung Wan Hotel), Merlin Street, Fortress Hill (now operating as the iclub Fortress Hill Hotel) and Ha Heung Road, To Kwa Wan (now operating as the iclub Ma Tau Wai Hotel), which were completed in January 2014, May 2014 and November 2016, respectively, as well as the residential project at Tan Kwai Tsuen Road, Yuen Long which was completed in November 2015. Chatwin is presently undertaking the main contract works for the iclub Mong Kok Hotel at Anchor Street/Fuk Tsun Street, Tai Kok Tsui, which were also awarded to Chatwin through competitive tender process. Due to the increasing number of projects undertaken by the Group as a whole, the Group's development consultancy division, which provides professional services on architectural, engineering and interior design aspects, is likewise principally supporting the needs of the Group's member companies.

## FINANCIAL ASSETS AND OTHER INVESTMENTS

The Group holds a significant portfolio of investments comprising listed securities and other investments, including 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 Group incurred a loss in its financial assets investments business, most of which arose from the changes in the fair value of the financial assets held.

## FINANCIAL REVIEW

### ASSETS VALUE

All the hotel properties of the Group 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 7th May, 2012 when RHIHL, together with Regal REIT, became subsidiaries 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 cost after full elimination of the unrealised gain arising from the disposal of the hotels by P&R Holdings to Regal REIT, and are also subject to depreciation. For the purpose of providing supplementary information, if the entire hotel property portfolio of the RHIHL group 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$15.97 per share, computed as follows:

| | As at 31st December, 2018 | |
|---|---|---|
| | **HK$'million** | **HK$ per ordinary share** |
| Book net assets attributable to equity holders of the parent | **13,771.3** | **12.36** |
| Adjustment to restate the RHIHL group's hotel property portfolio in Hong Kong at its market value and add back the relevant deferred tax liabilities | **4,026.5** | **3.61** |
| Unaudited adjusted net assets attributable to equity holders of the parent | **17,797.8** | **15.97** |

### 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.

Property development projects in Hong Kong are financed partly by internal resources and partly by bank financing. Project financing is normally arranged in local currency to cover a part of the land cost and a major portion or the entire amount of the construction cost, with interest calculated by reference to the interbank offered rates and the loan maturity tied in to the estimated project completion date. Property development projects in the PRC are presently financed by internal resources and proceeds from the presale of the units. Project financing for the projects in the PRC may be arranged in local currency on appropriate terms to cover a part of the land cost and/or construction cost, and with the loan maturity tied in to the estimated project completion date.

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 and investments in the PRC which are based in currencies other than US dollar and Hong Kong dollar, the Group will consider hedging part or all of the investment amounts into US dollar or Hong Kong dollar to contain the Group's exposure to currency fluctuation.

### Cash Flows

Net cash flows used in operating activities during the year under review amounted to HK$476.4 million (2017 – net cash flows generated from operating activities of HK$40.8 million). Net interest payment for the year amounted to HK$375.4 million (2017 – HK$317.9 million).

### Borrowings and Gearing

As at 31st December, 2018, the Group had cash and bank balances and deposits of HK$2,718.7 million (2017 – HK$4,817.2 million) and the Group's borrowings, net of cash and bank balances and deposits, amounted to HK$16,850.6 million (2017 – HK$13,235.9 million).

As at 31st December, 2018, the gearing ratio of the Group was 37.5% (2017 – 29.0%), representing the Group's borrowings net of cash and bank balances and deposits of HK$16,850.6 million (2017 – HK$13,235.9 million), as compared to the total assets of the Group of HK$44,907.6 million (2017 – HK$45,632.4 million).

On the basis of the adjusted total assets as at 31st December, 2018 of HK$52,608.5 million (2017 – HK$52,602.2 million) with the hotel portfolio owned by the RHIHL group in Hong Kong restated at its market value on the basis presented above, the gearing ratio would be 32.0% (2017 – 25.2%).

Details of the maturity profile of the borrowings of the Group as of 31st December, 2018 are shown in notes 32 and 33 to the financial statements.

### Pledge of Assets

As at 31st December, 2018, certain of the Group's property, plant and equipment, investment properties, properties held for sale, 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$28,697.5 million were pledged to secure general 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. In addition, as at 31st December, 2018, certain ordinary shares in a listed subsidiary with a market value of HK$457.2 million were also pledged to secure general banking facilities granted to the Group.

As at 31st December, 2017, certain of the Group's property, plant and equipment, investment properties, properties held for sale, properties under development, 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$27,144.0 million were pledged to secure general 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. In addition, as at 31st December, 2017, certain ordinary shares in a listed subsidiary with a market value of HK$536.8 million were also pledged to secure general banking facilities granted to the Group.

### Capital Commitments

Details of the capital commitments of the Group as at 31st December, 2018 are shown in note 45 to the financial statements.

### Contingent Liabilities

Details of the contingent liabilities of the Group as at 31st December, 2018 are shown in note 43 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 2,230 staff in Hong Kong and the PRC. 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 for staff in Hong Kong, and the social security fund and the housing provident fund for staff in the PRC.

# 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 property development and investment, construction and building related businesses, hotel ownership business through Regal Real Estate Investment Trust ("Regal REIT"), the listed subsidiary of Regal Hotels International Holdings Limited ("RHIHL") (a listed subsidiary of the Company), hotel operation and management businesses through RHIHL, asset management of Regal REIT, 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 52 to 185.

## 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 15 and pages 25 to 32, respectively, of this Annual Report. These discussions form part of this Report of the Directors. Details of the Group's financial risk management are disclosed in note 48 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 HK2.8 cents (2017 – HK2.5 cents) per ordinary share, absorbing a total amount of approximately HK$31.2 million (2017 – HK$27.9 million), was paid to the holders of ordinary shares during the year.

The Directors now recommend the payment of a final dividend of HK8.0 cents (2017 – HK8.0 cents) per ordinary share for the year ended 31st December, 2018, absorbing an amount of approximately HK$89.2 million (2017 – HK$89.2 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 during the following periods, and no transfers of shares will be effected during such periods:

(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, Tricor Tengis 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
Mr. Jimmy Lo Chun To
Mr. Donald Fan Tung
Mr. Bowen Joseph Leung Po Wing, GBS, JP
Miss Lo Po Man
Mr. Kenneth Ng Kwai Kai
Ms. Winnie Ng, JP
Hon Abraham Shek Lai Him, GBS, JP
Mr. Wong Chi Keung
Mr. Kenneth Wong Po Man

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 99 of the Bye-laws of the Company, the following Directors will retire from office by rotation at the 2019 Annual General Meeting:

(i) Mr. Jimmy Lo Chun To (Executive Director, Vice Chairman and Managing Director);

(ii) Mr. Donald Fan Tung (Executive Director and Chief Operating Officer);

(iii) Mr. Kenneth Wong Po Man (Executive Director); and

(iv) Mr. Wong Chi Keung (Independent Non-Executive Director).

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, 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 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:

| | | | | Number of shares held | | | |
|---|---|---|---|---|---|---|---|
| | **The Company/ Name of associated corporation** | **Name of Director** | **Class of shares held** | **Personal interests** | **Corporate interests** | **Family/Other interests** | **Total (Approximate percentage of the issued shares as at 31st December, 2018)** |
| 1. | **The Company** | Mr. Lo Yuk Sui | Ordinary (issued) | 90,078,014 | 740,860,803 (Note b) | 15,000 | 830,953,817 (74.55%) |
| | | Mr. Jimmy Lo Chun To | Ordinary (issued) | 2,274,600 | – | – | 2,274,600 (0.20%) |
| | | Mr. Donald Fan Tung | Ordinary (issued) | 556 | – | – | 556 (0.000%) |
| | | Miss Lo Po Man | Ordinary (issued) | 1,116,000 | – | – | 1,116,000 (0.10%) |
| | | Mr. Kenneth Ng Kwai Kai | Ordinary (issued) | 176,200 | – | – | 176,200 (0.02%) |
| | | Mr. Kenneth Wong Po Man | Ordinary (issued) | 6,200 | – | – | 6,200 (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%) |
| | | Mr. Jimmy Lo Chun To | Ordinary (issued) | 251,735 | – | – | 251,735 (0.008%) |
| | | Miss Lo Po Man | Ordinary (issued) | 112,298 | – | – | 112,298 (0.004%) |
| | | Mr. Kenneth Wong Po Man | Ordinary (issued) | 200 | – | – | 200 (0.000%) |

| | The Company/ Name of associated corporation | Name of Director | Class of shares held | Personal interests | Corporate interests | Family/Other interests | Total (Approximate percentage of the issued shares as at 31st December, 2018) |
|---|---|---|---|---|---|---|---|
| | | | | Number of shares held | | | |
| 3. | RHIHL | 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%) |
| | | Mr. Kenneth Wong Po Man | 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%) |
| | | Mr. Jimmy Lo Chun To | Ordinary (issued) | 2,269,101 | – | – | 2,269,101 (0.05%) |
| | | Miss Lo Po Man | Ordinary (issued) | 1,380,000 | – | – | 1,380,000 (0.03%) |
| 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 the Company were held through companies wholly owned by CCIHL, in which Mr. Lo held 58.67% shareholding interests.

The interests in 16,271,685 issued ordinary shares of the Company 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 the Company 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 RHIHL 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 RHIHL were held through companies wholly owned by the Company, in which CCIHL held 62.28% shareholding interests. The interests in the other 23,408,000 issued ordinary shares of RHIHL 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 the Company and RHIHL through their respective wholly owned subsidiaries) held 62.81% shareholding interests. The Company held 69.25% shareholding interests in RHIHL.

(d) The interests in 269,169 issued ordinary shares of RHIHL 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 the Company and RHIHL 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 RHIHL. The Company, in which CCIHL held 62.28% shareholding interests, held 69.25% shareholding interests in RHIHL. 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 the Company and RHIHL through their respective wholly owned subsidiaries. The Company, in which CCIHL held 62.28% shareholding interests, held 69.25% shareholding interests in RHIHL. 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 RHIHL. The interests in 732,363 issued units of Regal REIT were held through wholly owned subsidiaries of the Company. The interests in 2,687,000 issued units of Regal REIT were held through wholly owned subsidiaries of CCIHL. Cosmopolitan were held as to 62.81% shareholding interests by P&R Holdings, which is owned as to 50% each by the Company and RHIHL through their respective wholly owned subsidiaries. The Company, in which CCIHL held 62.28% shareholding interests, held 69.25% shareholding interests in RHIHL. 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) | 694,124,547 | – | 694,124,547 | 62.28% |
| Grand Modern Investments Limited ("Grand Modern") (Note ii) | 694,124,547 | – | 694,124,547 | 62.28% |
| CCIHL (Note iii) | 694,124,547 | – | 694,124,547 | 62.28% |
| Century City BVI Holdings Limited ("CCBVI") (Note iv) | 694,124,547 | – | 694,124,547 | 62.28% |
| Almighty International Limited ("Almighty") (Note iv) | 346,994,526 | – | 346,994,526 | 31.13% |
| Cleverview Investments Limited ("Cleverview") (Note iv) | 180,811,470 | – | 180,811,470 | 16.22% |

**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) These companies are wholly owned subsidiaries of CCIHL and their interests in the ordinary shares of the Company were included in the interests held by CCIHL.

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, Mr. Jimmy Lo Chun To and Miss Lo Po Man are directors of Grand Modern.

(3) Mr. Lo Yuk Sui, Mr. Jimmy Lo Chun To, Mr. Donald Fan Tung, Miss Lo Po Man, Mr. Kenneth Ng Kwai Kai, Ms. Winnie Ng and Mr. Wong Chi Keung are directors of CCIHL.

(4) Mr. Lo Yuk Sui, Mr. Jimmy Lo Chun To, Mr. Donald Fan Tung, Miss Lo Po Man and Mr. Kenneth Ng Kwai Kai are directors of CCBVI, Almighty and Cleverview.

## 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 |
|---|---|
| *Executive Directors:* | |
| Mr. Lo Yuk Sui | • Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$810,000 commencing from January 2019. (Notes (i) and (ii)) |
| Mr. Jimmy Lo Chun To | • Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$214,200 commencing from January 2019. (Note (i)) |
| Mr. Donald Fan Tung | • Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$229,900 commencing from January 2019. (Note (i)) |
| Miss Lo Po Man | • Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$226,100 commencing from January 2019. (Note (i)) |
| Mr. Kenneth Ng Kwai Kai | • Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$248,900 commencing from January 2019. (Note (i)) |
| Mr. Kenneth Wong Po Man | • Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$207,000 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".

## 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 percentage of purchases attributable to 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 32 and 33 to the financial statements.

## SHARE CAPITAL

The details of movements in the share capital of the Company, together with reasons therefor, during the year are set out in note 36 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 36 to the financial statements.

## SUBSIDIARIES

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

## ASSOCIATES

Particulars of the Group's investments in associates are set out in note 16 to the financial statements.

## 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$1,919.8 million, of which HK$89.2 million has been proposed as final dividend for the year.

In addition, the Company's share premium account, in the amount of HK$1,356.1 million, may be distributed in the form of fully paid bonus shares.

## FINANCE COSTS CAPITALISED

Finance costs in the amount of HK$186.6 million were capitalised during the year in respect of the Group's property development projects.

## AUDITOR

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

## 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 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 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)*
Mr. Jimmy Lo Chun To *(Vice Chairman and Managing Director)*
Mr. Donald Fan Tung *(Chief Operating Officer)*
Miss Lo Po Man
Mr. Kenneth Ng Kwai Kai
Mr. Kenneth Wong Po Man

*Independent Non-Executive Directors:*

Mr. Bowen Joseph Leung Po Wing, GBS, JP
Ms. Winnie Ng, JP
Hon Abraham Shek Lai Him, GBS, JP
Mr. Wong Chi Keung

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* |
| *Executive Directors* | | |
| Mr. Lo Yuk Sui *(Chairman and Chief Executive Officer)* | 12/12 | 1/1 |
| Mr. Jimmy Lo Chun To *(Vice Chairman and Managing Director)* | 12/12 | 1/1 |
| Mr. Donald Fan Tung *(Chief Operating Officer)* | 12/12 | 1/1 |
| Miss Lo Po Man | 12/12 | 1/1 |
| Mr. Kenneth Ng Kwai Kai | 12/12 | 1/1 |
| Mr. Kenneth Wong Po Man | 11/12 | 1/1 |
| *Independent Non-Executive Directors* | | |
| Mr. Bowen Joseph Leung Po Wing, GBS, JP | 12/12 | 1/1 |
| Ms. Winnie Ng, JP | 12/12 | 1/1 |
| Hon Abraham Shek Lai Him, GBS, JP | 12/12 | 1/1 |
| Mr. Wong Chi Keung | 12/12 | 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** |
|---|---|
| *Executive Directors* | |
| Mr. Lo Yuk Sui *(Chairman and Chief Executive Officer)* | A, B |
| Mr. Jimmy Lo Chun To *(Vice Chairman and Managing Director)* | A, B |
| Mr. Donald Fan Tung *(Chief Operating Officer)* | A, B |
| Miss Lo Po Man | A, B |
| Mr. Kenneth Ng Kwai Kai | A, B |
| Mr. Kenneth Wong Po Man | A, B |
| *Independent Non-Executive Directors* | |
| Mr. Bowen Joseph Leung Po Wing, GBS, JP | A, B |
| Ms. Winnie Ng, JP | A, B |
| Hon Abraham Shek Lai Him, GBS, 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)*
Mr. Bowen Joseph Leung Po Wing, GBS, JP *(Member)*
Ms. Winnie Ng, JP *(Member)*
Hon Abraham Shek Lai Him, 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 Auditor, 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 Auditor.

In year 2018, the Audit Committee met twice and the meetings were attended by the external Auditor 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 *(Chairman of the Committee)* | 2/2 |
| Mr. Bowen Joseph Leung Po Wing, GBS, JP | 2/2 |
| Ms. Winnie Ng, JP | 2/2 |
| Hon Abraham Shek Lai Him, GBS, 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. 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 *(Chairman of the Committee)* | 1/1 |
| Mr. Lo Yuk Sui | 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$3,000,001 – 3,500,000 | 1 |
| HK$3,500,001 – 4,000,000 | 1 |
| Within bands from HK$4,000,001 – 6,000,000 | 1 |
| HK$6,000,001 – 6,500,000 | 2 |
| Within bands from HK$6,500,001 – 16,500,000 | 0 |
| HK$16,500,001 – 17,000,000 | 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:*

Mr. Bowen Joseph Leung Po Wing, GBS, JP *(Member)*
Ms. Winnie Ng, JP *(Member)*
Hon Abraham Shek Lai Him, GBS, 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 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 Bye-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 *(Chairman of the Committee)* | 1/1 |
| Mr. Bowen Leung Po Wing, GBS, JP | 1/1 |
| Ms. Winnie Ng, JP | 1/1 |
| Hon Abraham Shek Lai Him, GBS, 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 those 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 Paliburg Holdings Limited" (the "Paliburg 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 Paliburg 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 set of corporate policies and procedures for the principal business operations of the Group, with an objective to achieving sound and effective risk management and internal control systems. Separate meetings participated by Executive Directors, Group Financial Controller and related division heads 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. 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$11.1 million (2017 - HK$11.9 million) and HK$6.1 million (2017 - HK$5.0 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 for the six months ended 30th June, 2018 | 2.0 |
| (2) Compliance and other services to the Group | 4.1 |

## (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 requisitionist(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 | **5,894.3** | 3,588.6 |
| Cost of sales | | **(3,892.2)** | (2,349.8) |
| Gross profit | | **2,002.1** | 1,238.8 |
| Other income and gains, net | 5 | **120.0** | 187.5 |
| Fair value gains on investment properties, net | 14 | **191.7** | 671.2 |
| Fair value loss upon reclassification of properties held for sale to investment properties | | **(0.7)** | – |
| Fair value gains/(losses) on financial assets at fair value through profit or loss, net | | **(214.8)** | 59.2 |
| Gain on disposal of subsidiaries | 40(c) | **–** | 0.2 |
| Write-back of impairment loss on property under development | 15 | **–** | 57.0 |
| Impairment loss on items of property, plant and equipment | 13 | **–** | (50.5) |
| Property selling and marketing expenses | | **(77.0)** | (42.3) |
| Administrative expenses | | **(418.3)** | (375.0) |
| OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION | | **1,603.0** | 1,746.1 |
| Depreciation and amortisation | | **(592.6)** | (600.5) |
| OPERATING PROFIT | | **1,010.4** | 1,145.6 |
| Finance costs | 7 | **(436.0)** | (309.4) |
| Share of profits and losses of associates | | **(2.3)** | (26.6) |
| PROFIT BEFORE TAX | 6 | **572.1** | 809.6 |
| Income tax | 10 | **(144.5)** | (91.5) |
| PROFIT FOR THE YEAR BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS | | **427.6** | 718.1 |
| Attributable to: | | | |
| Equity holders of the parent | | **321.0** | 528.5 |
| Non-controlling interests | | **106.6** | 189.6 |
| | | **427.6** | 718.1 |
| EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | 12 | | |
| Basic and diluted | | **HK21.75 cents** | HK42.47 cents |

# 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 | | **427.6** | 718.1 |
| 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 | | **–** | 31.6 |
| Exchange differences on translating foreign operations | | **(138.0)** | 202.0 |
| Reclassification adjustment on disposal of foreign operations | 40(c) | **–** | 1.6 |
| Share of other comprehensive income/(loss) of an associate | | **(0.1)** | 0.2 |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods | | **(138.1)** | 235.4 |
| 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 | 35 | **–** | (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 | | **(138.1)** | 243.5 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **289.5** | 961.6 |
| Attributable to: | | | |
| Equity holders of the parent | | **221.9** | 701.6 |
| Non-controlling interests | | **67.6** | 260.0 |
| | | **289.5** | 961.6 |

# 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 | **22,969.3** | 22,671.7 |
| Investment properties | 14 | **3,782.3** | 3,445.2 |
| Properties under development | 15 | **2,227.7** | 2,075.3 |
| Investments in associates | 16 | **6.1** | 22.6 |
| Available-for-sale investments | 17 | **–** | 385.8 |
| Financial assets at fair value through profit or loss | 18 | **632.4** | 1.9 |
| Loans receivable | 21 | **133.1** | 111.9 |
| Deposits and prepayments | 27 | **401.0** | 92.0 |
| Deferred tax assets | 35 | **42.9** | 51.7 |
| Goodwill | 23 | **261.0** | 261.0 |
| Trademark | 24 | **610.2** | 610.2 |
| Total non-current assets | | **31,066.0** | 29,729.3 |
| CURRENT ASSETS | | | |
| Properties under development | 15 | **1,747.4** | 7,194.9 |
| Properties held for sale | 25 | **6,128.7** | 1,285.8 |
| Aircraft held for sale | 20 | **5.9** | 18.4 |
| Inventories | 26 | **64.6** | 65.5 |
| Loans receivable | 21 | **177.0** | 4.5 |
| Finance lease receivables | 22 | **–** | 37.1 |
| Debtors, deposits and prepayments | 27 | **450.2** | 683.8 |
| Held-to-maturity investments | 19 | **–** | 167.9 |
| Financial assets at amortised cost | 19 | **481.3** | – |
| Financial assets at fair value through profit or loss | 18 | **2,027.2** | 1,616.3 |
| Derivative financial instruments | 34 | **28.4** | – |
| Tax recoverable | | **12.2** | 11.7 |
| Restricted cash | 28 | **81.4** | 145.6 |
| Pledged time deposits and bank balances | | **24.0** | 550.4 |
| Time deposits | | **1,059.3** | 1,896.5 |
| Cash and bank balances | | **1,554.0** | 2,224.7 |
| Total current assets | | **13,841.6** | 15,903.1 |

As at 31st December, 2018

| | Notes | 2018 HK$'million | 2017 HK$'million |
|---|---|---|---|
| CURRENT LIABILITIES | | | |
| Creditors and accruals | 29, 30 | **(1,177.1)** | (1,040.7) |
| Contract liabilities | 31 | **(336.8)** | – |
| Deposits received | | **(28.9)** | (2,568.5) |
| Interest bearing bank borrowings | 32 | **(4,131.2)** | (4,251.6) |
| Other borrowings | 33 | **–** | (1,945.8) |
| Derivative financial instruments | 34 | **(1.0)** | (3.0) |
| Tax payable | | **(176.3)** | (141.1) |
| Total current liabilities | | **(5,851.3)** | (9,950.7) |
| NET CURRENT ASSETS | | **7,990.3** | 5,952.4 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **39,056.3** | 35,681.7 |
| NON-CURRENT LIABILITIES | | | |
| Creditors and deposits received | | **(75.3)** | (74.7) |
| Interest bearing bank borrowings | 32 | **(12,712.2)** | (9,142.0) |
| Other borrowings | 33 | **(2,725.9)** | (2,713.7) |
| Deferred tax liabilities | 35 | **(1,973.2)** | (2,048.5) |
| Total non-current liabilities | | **(17,486.6)** | (13,978.9) |
| Net assets | | **21,569.7** | 21,702.8 |
| EQUITY | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued capital | 36 | **111.4** | 111.4 |
| Reserves | 37 | **13,659.9** | 13,649.6 |
| | | **13,771.3** | 13,761.0 |
| **Perpetual securities** | 38 | **1,732.9** | 1,732.9 |
| **Non-controlling interests** | | **6,065.5** | 6,208.9 |
| Total equity | | **21,569.7** | 21,702.8 |

**KENNETH NG KWAI KAI**
Director

**LO YUK SUI**
Director

# Consolidated Statement of Changes in Equity

**For the year ended 31st December, 2018**

| | Notes | Issued capital HK$'m | Share premium account HK$'m | Capital redemption reserve HK$'m | Capital reserve HK$'m | Special reserve HK$'m | Available-for-sale investment revaluation reserve HK$'m | Equity component of convertible bonds of a listed subsidiary HK$'m | Property revaluation reserve HK$'m | Exchange equalisation reserve HK$'m | Retained profits HK$'m | Total HK$'m | Perpetual securities HK$'m | Non-controlling interests HK$'m | Total equity HK$'m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the parent | | | | | | | | | | | | | |
| At 1st January, 2017 | | 111.4 | 1,356.1 | 4.3 | 1,970.5 | 689.6 | 48.9 | 21.5 | - | (189.6) | 9,100.8 | 13,113.5 | - | 6,401.1 | 19,514.6 |
| Profit for the year | | - | - | - | - | - | - | - | - | - | 528.5 | 528.5 | - | 189.6 | 718.1 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | | |
| Changes in fair value of available-for-sale investments | | - | - | - | - | - | 22.6 | - | - | - | - | 22.6 | - | 9.0 | 31.6 |
| Exchange differences on translating foreign operations | | - | - | - | - | - | - | - | - | 143.8 | - | 143.8 | - | 58.2 | 202.0 |
| Reclassification adjustment on disposal of foreign operations | 40(c) | - | - | - | - | - | - | - | - | 1.1 | - | 1.1 | - | 0.5 | 1.6 |
| Share of other comprehensive income of an associate | | - | - | - | - | - | - | - | - | 0.1 | - | 0.1 | - | 0.1 | 0.2 |
| Gain on revaluation of property, net of tax | | - | - | - | - | - | - | - | 5.5 | - | - | 5.5 | - | 2.6 | 8.1 |
| Total comprehensive income for the year | | - | - | - | - | - | 22.6 | - | 5.5 | 145.0 | 528.5 | 701.6 | - | 260.0 | 961.6 |
| Acquisition/Deemed acquisition of non-controlling interests in listed subsidiaries | | - | - | - | 109.0 | - | - | (21.5) | - | - | - | 87.5 | - | (237.0) | (149.5) |
| Disposal of subsidiaries | 40(c) | - | - | - | - | - | - | - | - | - | - | - | - | (31.0) | (31.0) |
| Issue of perpetual securities by a listed subsidiary | 38 | - | - | - | - | - | - | - | - | - | - | - | 1,732.9 | - | 1,732.9 |
| Distribution to holders of perpetual securities | | - | - | - | - | - | - | - | - | - | (39.0) | (39.0) | - | (18.0) | (57.0) |
| Final 2016 dividend declared | | - | - | - | - | - | - | - | - | - | (74.7) | (74.7) | - | (92.6) | (167.3) |
| Interim 2017 dividend | 11 | - | - | - | - | - | - | - | - | - | (27.9) | (27.9) | - | (73.6) | (101.5) |
| At 31st December, 2017 | | 111.4 | 1,356.1 | 4.3 | 2,079.5 | 689.6 | 71.5 | - | 5.5 | (44.6) | 9,487.7 | 13,761.0 | 1,732.9 | 6,208.9 | 21,702.8 |

# Consolidated Statement of Changes in Equity (Cont'd)

**For the year ended 31st December, 2018**

| | Notes | Issued capital HK$'m | Share premium account HK$'m | Capital redemption reserve HK$'m | Capital reserve HK$'m | Special reserve HK$'m | Available-for-sale investment revaluation reserve HK$'m | Property 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 | Total equity HK$'m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the parent | | | | | | | | | | | | |
| At 31st December, 2017 | | 111.4 | 1,356.1 | 4.3 | 2,079.5 | 689.6 | 71.5 | 5.5 | (44.6) | 9,487.7 | 13,761.0 | 1,732.9 | 6,208.9 | 21,702.8 |
| Effect of adoption of HKFRS 9 | 2.2 | – | – | – | – | – | (71.5) | – | – | 71.5 | – | – | – | – |
| At 1st January, 2018 (restated) | | 111.4 | 1,356.1 | 4.3 | 2,079.5 | 689.6 | – | 5.5 | (44.6) | 9,559.2 | 13,761.0 | 1,732.9 | 6,208.9 | 21,702.8 |
| Profit for the year | | – | – | – | – | – | – | – | – | 321.0 | 321.0 | – | 106.6 | 427.6 |
| Other comprehensive loss for the year: | | | | | | | | | | | | | | |
| Exchange differences on translating foreign operations | | – | – | – | – | – | – | – | (99.1) | – | (99.1) | – | (38.9) | (138.0) |
| Share of other comprehensive loss of an associate | | – | – | – | – | – | – | – | – | – | – | – | (0.1) | (0.1) |
| Total comprehensive income/(loss) for the year | | – | – | – | – | – | – | – | (99.1) | 321.0 | 221.9 | – | 67.6 | 289.5 |
| Acquisition of non-controlling interests in a listed subsidiary | | – | – | – | (13.5) | – | – | – | – | – | (13.5) | – | (6.8) | (20.3) |
| Disposal of interests in a subsidiary | | – | – | – | – | – | – | – | – | 0.9 | 0.9 | – | 1.1 | 2.0 |
| Contribution from non-controlling interests | | – | – | – | – | – | – | – | – | – | – | – | 6.2 | 6.2 |
| Distribution to non-controlling interests | | – | – | – | – | – | – | – | – | – | – | – | (9.8) | (9.8) |
| Distribution to holders of perpetual securities | | – | – | – | – | – | – | – | – | (78.6) | (78.6) | – | (36.2) | (114.8) |
| Final 2017 dividend declared | | – | – | – | – | – | – | – | – | (89.2) | (89.2) | – | (90.5) | (179.7) |
| Interim 2018 dividend | 11 | – | – | – | – | – | – | – | – | (31.2) | (31.2) | – | (75.0) | (106.2) |
| At 31st December, 2018 | | 111.4 | 1,356.1 | 4.3 | 2,066.0 | 689.6 | – | 5.5 | (143.7) | 9,682.1 | 13,771.3 | 1,732.9 | 6,065.5 | 21,569.7 |

# 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 | | **572.1** | 809.6 |
| Adjustments for: | | | |
| Finance costs | 7 | **436.0** | 309.4 |
| Share of profits and losses of associates | | **2.3** | 26.6 |
| Interest income | 5 | **(176.1)** | (154.2) |
| Depreciation and amortisation | 6 | **592.6** | 600.5 |
| Dividend income | 5 | **(21.8)** | (16.2) |
| Gain on disposal of subsidiaries | | **–** | (0.2) |
| Loss/(Gain) on disposal of items of property, plant and equipment, net | 5 | **1.2** | (18.8) |
| Gain on disposal of an investment property | 5 | **–** | (0.1) |
| Fair value gains on investment properties, net | | **(191.7)** | (671.2) |
| Fair value loss upon reclassification of properties held for sale to investment properties | | **0.7** | – |
| Fair value losses/(gains) on financial assets at fair value through profit or loss, net | | **214.8** | (59.2) |
| Write-back of impairment loss on property under development | | **–** | (57.0) |
| Impairment loss on items of property, plant and equipment | | **–** | 50.5 |
| Impairment of trade debtors | 6 | **2.9** | 0.1 |
| Write-off of items of property, plant and equipment | 6 | **1.2** | – |
| Write-off of other receivable | 6 | **0.2** | – |
| Reversal of impairment of loans receivable | 6 | **(0.1)** | (0.1) |
| | | **1,434.3** | 819.7 |
| Additions to properties under development | | **(1,573.0)** | (1,937.5) |
| Decrease in properties held for sale | | **2,291.2** | 935.3 |
| Decrease in aircraft held for sale | | **70.9** | – |
| Increase in financial assets at fair value through profit or loss | | **(641.3)** | (670.9) |
| Decrease/(Increase) in derivative financial instruments | | **(3.0)** | 7.1 |
| Decrease/(Increase) in inventories | | **0.9** | (0.7) |
| Decrease in debtors, deposits and prepayments | | **122.2** | 562.2 |
| Receipt from finance leases | | **37.2** | 36.6 |
| Decrease in restricted cash | | **63.9** | 314.2 |
| Increase/(Decrease) in creditors and accruals | | **63.0** | (65.8) |
| Decrease in contract liabilities | | **(2,363.2)** | – |
| Increase/(Decrease) in deposits received | | **(11.0)** | 182.4 |
| Cash generated from/(used in) operations | | **(507.9)** | 182.6 |
| Dividends received from listed investments | | **15.9** | 12.4 |
| Interest received | | **86.1** | 38.6 |
| Interest received from finance leases | | **1.9** | 4.8 |
| Hong Kong profits tax paid | | **(66.0)** | (143.8) |
| Overseas taxes paid | | **(6.4)** | (53.8) |
| Net cash flows from/(used in) operating activities | | **(476.4)** | 40.8 |

| | Notes | 2018 HK$'million | 2017 HK$'million |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of subsidiaries that are not a business | | **(256.2)** | – |
| Disposal of subsidiaries | 40(c) | **–** | 116.4 |
| Purchases of available-for-sale investments | | **–** | (80.7) |
| Purchases of held-to-maturity investments | | **–** | (2,629.2) |
| Purchase of financial assets at fair value through profit or loss | | **(256.5)** | – |
| Purchase of financial assets at amortised costs | | **(1,116.5)** | – |
| Proceeds from redemption of held-to-maturity investments | | **–** | 2,928.0 |
| Proceeds from redemption of financial assets at amortised cost | | **803.2** | – |
| Increase in loans receivable | | **(193.6)** | (19.2) |
| Proceeds from disposal of an investment property | | **–** | 1.0 |
| Additions to investment properties | | **(64.6)** | (250.5) |
| Proceeds from disposal of items of property, plant and equipment | | **6.3** | 91.2 |
| Purchases of items of property, plant and equipment | | **(809.3)** | (2,750.5) |
| Deposits paid for purchases of items of property, plant and equipment | | **–** | (6.6) |
| Investment deposits paid | | **(201.4)** | – |
| Repayment from/(Advances to) associates | | **14.1** | (17.3) |
| Interest received | | **59.9** | 112.3 |
| Dividends received from unlisted investments | | **5.9** | 3.8 |
| Increase in restricted cash | | **(0.8)** | (4.3) |
| Decrease/(Increase) in pledged time deposits and bank balances | | **526.4** | (285.3) |
| Increase in time deposit with an original maturity of more than three months | | **(10.0)** | – |
| Net cash flows used in investing activities | | **(1,493.1)** | (2,790.9) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Drawdown of new bank loans | | **6,600.5** | 5,037.5 |
| Repayment of bank loans | | **(3,125.7)** | (1,203.2) |
| Decrease in other borrowings | | **(1,952.3)** | (2,277.8) |
| Payment of loan and other costs | | **(74.5)** | (45.9) |
| Interest paid | | **(523.3)** | (473.6) |
| Dividends paid | | **(120.3)** | (102.5) |
| Dividends paid to non-controlling interests | | **(165.3)** | (166.1) |
| Contribution from non-controlling interests | | **6.2** | – |
| Distribution to non-controlling interests | | **(9.8)** | – |
| Acquisition of non-controlling interests in listed subsidiaries | | **(20.3)** | (77.8) |
| Proceeds from disposal of interests in a subsidiary | | **2.0** | – |
| Repurchase and cancellation of ordinary shares by a listed subsidiary | | **–** | (117.1) |
| Issue of perpetual securities by a listed subsidiary, net of issue expenses | | **–** | 1,734.2 |
| Distribution to holders of perpetual securities | | **(114.8)** | (57.0) |
| Net cash flows from financing activities | | **502.4** | 2,250.7 |

## Consolidated Statement of Cash Flows (Cont'd)

**For the year ended 31st December, 2018**

| | Notes | 2018 HK$'million | 2017 HK$'million |
|---|---|---|---|
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(1,467.1)** | (499.4) |
| Cash and cash equivalents at beginning of year | | **4,121.2** | 4,488.9 |
| Effect of foreign exchange rate changes, net | | **(50.8)** | 131.7 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **2,603.3** | 4,121.2 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalent as stated in the consolidated statement of financial position | 40(a) | **2,613.3** | 4,121.2 |
| Non-pledged time deposit with an original maturity of more than three months when acquired | 40(a) | **(10.0)** | – |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | **2,603.3** | 4,121.2 |

## 1. CORPORATE AND GROUP INFORMATION

Paliburg 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 property development and investment, construction and building related businesses, hotel ownership, hotel operation and management, asset management, aircraft ownership and leasing 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 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| 303 Technology Limited | Hong Kong | HK$2 | 100 | 100 | Security systems and software design, development and distribution |
| Bajan Company Limited | Hong Kong | HK$2 | 100 | 100 | Securities investment |
| Chatwin Engineering Limited | Hong Kong | HK$16,800,000 | 100 | 100 | Building construction |
| Cosmos Best Development Limited | Hong Kong | HK$2 | 100 | 100 | Management services |
| Cosmos Gain Investment Limited | Hong Kong | HK$2 | 100 | 100 | Property development and investment and financing |
| Farich Investment Limited | Hong Kong | HK$2 | 100 | 100 | Investment holding |
| Finso Limited | Hong Kong | HK$2 | 100 | 100 | Investment holding |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Gain World Investments Limited | British Virgin Islands | US$1 | 100 | 100 | Investment holding |
| Glaser Holdings Limited | British Virgin Islands | US$1 | 100 | 100 | Investment holding |
| Glorymark Investments Limited | British Virgin Islands | US$1 | 100 | 100 | Investment holding |
| Grand Equity Limited | British Virgin Islands | US$1 | 100 | 100 | Investment holding |
| Guo Yui Investments Limited | British Virgin Islands | US$1 | 100 | 100 | Investment holding |
| H.P. Nominees Limited | Hong Kong | HK$2 | 100 | 100 | Investment holding, securities investment and nominee services |
| Hang Fok Properties Limited | British Virgin Islands | US$100 | 84.2 | 84.2 | Investment holding |
| Hilmark Investments Limited | British Virgin Islands | US$1 | 100 | 100 | Investment holding |
| Leading Lighting Technology Limited | Hong Kong | HK$1 | 100 | 100 | Lighting technology services |
| Leading Technology Holdings Limited | British Virgin Islands | US$100 | 100 | 100 | Investment holding |
| Linkprofit Limited | Hong Kong | HK$1,000 | 100 | 100 | Investment holding |
| Paliburg BVI Holdings Limited | British Virgin Islands | HK$10 | 100 | 100 | Investment holding |
| Paliburg Building Services Limited | Hong Kong | HK$2 | 100 | 100 | Mechanical and electrical engineering services |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Paliburg Development BVI Holdings Limited | British Virgin Islands | US$1 | 100 | 100 | Investment holding |
| Paliburg Development Consultants Limited | Hong Kong | HK$100,000 | 100 | 100 | Property development consultancy |
| Paliburg Development Finance Limited | Hong Kong | HK$2 | 100 | 100 | Financing and securities investment |
| Paliburg Estate Agents Limited | Hong Kong | HK$20 | 100 | 100 | Estate agent |
| Paliburg Estate Management Limited | Hong Kong | HK$20 | 100 | 100 | Estate management |
| Paliburg Finance Limited | Hong Kong | HK$2 | 100 | 100 | Financing |
| Paliburg Investments Limited | Hong Kong | HK$526,506,860 | 100 | 100 | Investment holding and management services |
| Paliburg Property Development (Shanghai) Co., Ltd.[i] | The People's Republic of China ("PRC")/ Mainland China | US$10,000,000 | 100 | 100 | Property development and investment |
| Rich Pearl Limited | Hong Kong | HK$10,000 | 100 | 100 | Financing |
| Sanefix Development Limited | Hong Kong | HK$2 | 100 | 100 | Property investment |
| Shenzhen Leading Technology Co., Ltd.[i] | PRC/ Mainland China | RMB20,000,000 | 100 | 100 | Security systems and software design, development and distribution |
| Taylor Investments Ltd. | British Virgin Islands | US$1 | 100 | 100 | Investment holding |
| Transcar Investments Limited | British Virgin Islands | US$1 | 100 | 100 | Investment holding |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | Percentage of equity interest attributable to the Company 2017 | Principal activities |
|---|---|---|---|---|---|
| Wiggans Investments Limited | British Virgin Islands | US$1 | 100 | 100 | Securities investment |
| Winrise Investment Limited | Hong Kong | HK$2 | 100 | 100 | Securities investment |
| Yield Star Limited | British Virgin Islands | US$1 | 100 | 100 | Investment holding |
| Yieldtop Holdings Limited | British Virgin Islands | US$100 | 84.2 | 84.2 | Investment holding |
| 昆明中美二戰友誼公園文化傳播有限公司(ii) | PRC/ Mainland China | RMB5,000,000 | 87.0 | 87.0 | Project management |
| Advance Fame Investments Limited | Hong Kong | HK$1 | 84.2 | 84.2 | Property development |
| Alpha Advantage Investments Limited | British Virgin Islands | US$1 | 84.2 | 84.2 | Securities investment |
| Brilliant Enhancement Limited | Hong Kong | HK$1 | 84.2 | – | Property investment |
| Eminent Gold Investments Limited | Hong Kong | HK$1 | 84.2 | 84.2 | Property development |
| Equal Advantage Limited | Hong Kong | HK$1 | 84.2 | 84.2 | Property investment |
| Estate Legend Investments Limited | Hong Kong | HK$1 | 84.2 | 84.2 | Financing |
| Fine Cosmos Development Limited | Hong Kong | HK$2 | 84.2 | 84.2 | Property development |
| Fountain Sky Limited | Hong Kong | HK$2 | 84.2 | 84.2 | Securities investment |
| Grace Express Investment Limited | Hong Kong | HK$1 | 84.2 | – | Property investment |
| Great Select Holdings Limited | British Virgin Islands | US$1 | 84.2 | 84.2 | Securities investment |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Inspiring Goal Limited | Hong Kong | HK$1 | 84.2 | – | Property investment |
| Interzone Investments Limited | British Virgin Islands | US$1 | 84.2 | 84.2 | Securities investment |
| Jumbo Pearl Investments Limited | British Virgin Islands | US$1 | 84.2 | 84.2 | Securities investment |
| Lendas Investments Limited | British Virgin Islands | US$1 | 84.2 | 84.2 | Securities investment |
| Lucky Achievement Limited | Hong Kong | HK$1 | 84.2 | 84.2 | Property investment |
| Marvel Best International Limited | Hong Kong | HK$1 | 84.2 | – | Investment holding |
| Marvel Sino Holdings Limited | Hong Kong | HK$1 | 84.2 | – | Property investment |
| Metropolitan Metro Asia (Ma On Shan) Limited | Hong Kong | HK$1 | 84.2 | – | Food and beverage operations |
| Metropolitan Metro Cafe (Ma On Shan) Limited | Hong Kong | HK$1 | 84.2 | – | Food and beverage operations |
| Multiple Achievement Limited | Hong Kong | HK$1 | 84.2 | 84.2 | Property investment |
| New Multi-Profit Limited | Hong Kong | HK$1 | 84.2 | 84.2 | Property investment |
| P&R Finance Limited | Hong Kong | HK$1 | 84.2 | 84.2 | Financing |
| P&R Holdings Limited ("P&R Holdings") | British Virgin Islands | US$100 | 84.2 | 84.2 | Investment holding |
| P&R Strategic Limited | British Virgin Islands | US$1 | 84.2 | 84.2 | Investment holding |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Prosper Link International Limited | Hong Kong | HK$1 | 84.2 | – | Property investment |
| Real Charm Investment Limited | Hong Kong | HK$2 | 84.2 | 84.2 | Property development and investment |
| Regala Success Limited | Hong Kong | HK$2 | 84.2 | 68.4 | Food and beverage operations |
| Star Yield Investments Limited | Hong Kong | HK$1 | 84.2 | 84.2 | Property development |
| Sun Joyous Investments Limited | British Virgin Islands | US$1 | 84.2 | 84.2 | Securities investment |
| Super Residence Limited | Hong Kong | HK$1 | 84.2 | 84.2 | Property investment |
| Time Crest Investments Limited | British Virgin Islands | US$1 | 84.2 | 84.2 | Securities investment |
| Ultimate Lead Limited | Hong Kong | HK$1 | 84.2 | 84.2 | Hotel ownership |
| Valuegood International Limited | British Virgin Islands | US$1 | 84.2 | 84.2 | Securities investment |
| Vast Strong Corporation Limited | Hong Kong | HK$1 | 84.2 | – | Property investment |
| Well Mount Investments Limited | British Virgin Islands | US$1 | 84.2 | 84.2 | Securities investment |
| Well View Investment Limited | Hong Kong | HK$1 | 84.2 | – | Property investment |
| Winart Investments Limited | British Virgin Islands | US$1 | 84.2 | 84.2 | Securities investment |
| 富豪(重慶)股權投資基金合夥企業(有限合夥)(iii) | PRC/ Mainland China | RMB250,000,000 | 84.2 | 84.2 | Investment holding and management consultancy |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| 成都富譽實業有限公司[(iv)] | PRC/ Mainland China | RMB250,000,000 | 84.2 | 84.2 | Investment holding |
| Cosmopolitan International Holdings Limited ("Cosmopolitan") | Cayman Islands/ Hong Kong | Ordinary - HK$8,827,445 | 60.1 | 59.7 | Investment holding |
| | | Preference - HK$4,691,383 | 83.3 | 83.3 | |
| Apex Team Limited | Hong Kong | HK$1 | 69.0 | 68.7 | Financing |
| Cosmopolitan International Finance Limited | Hong Kong | HK$1 | 69.0 | 68.7 | Financing and financial assets investment |
| Cosmopolitan International Management Services Limited | Hong Kong | HK$1 | 69.0 | 68.7 | Management services |
| Evercharm Investments Limited | British Virgin Islands | US$1 | 69.0 | 68.7 | Financial assets investment |
| 新疆麗寶生態開發有限公司[(i)] | PRC/ Mainland China | US$16,800,000 | 69.0 | 68.7 | Property development |
| 成都富博房地產開發有限公司[(i)] | PRC/ Mainland China | HK$175,000,000 | 69.0 | 68.7 | Property development |
| 天津市富都房地產開發有限公司[(i)] | PRC/ Mainland China | RMB650,000,000 | 69.0 | 68.7 | Property development |
| 置富投資開發(成都)有限公司[(i)] | PRC/ Mainland China | HK$336,000,960 | 69.0 | 68.7 | Property development |
| 北京富利企業管理有限公司[(i)] | PRC/ Mainland China | RMB298,000,000 | 69.0 | 68.7 | Investment holding |
| 富宏(深圳)諮詢管理有限公司[(i)] | PRC/ Mainland China | RMB10,000,000 | 69.0 | 68.7 | Development consultancy |
| 成都富薈實業有限公司[(i)] | PRC/ Mainland China | RMB198,000,000 | 69.0 | 68.7 | Investment holding |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Regal Hotels International Holdings Limited ("RHIHL") | Bermuda/ Hong Kong | Ordinary - HK$89,878,233 | 68.4 | 68.4 | Investment holding |
| Alpha Season Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| Ascent Human Resources Holdings Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Provision of housekeeping services |
| Camomile Investments Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Property investment |
| Capital Charm Holdings Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property development |
| Cheerview Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Food and beverage operations |
| Chest Gain Development Limited | Hong Kong | HK$10,000 | 68.4 | 68.4 | Property development and investment, and investment holding |
| Clear Gain Investments Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property development |
| Come On Investment Company Limited | Hong Kong | HK$10,000 | 68.4 | 68.4 | Securities trading and investment |
| Complete Success Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| Eminent Idea Holdings Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| Eminent Result Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Favour Link International Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Hotel operations |
| Favourite Stock Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Securities investment |
| Forever Venus Limited | British Virgin Islands | US$1 | 68.4 | – | Investment holding |
| Fortune Build Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| Fortune Trove Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| Frequentspirit Investimentos Imobiliários Unipessoal Lda. | Portugal | EUR100 | 61.6 | – | Property development |
| Full Leader Development Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property development |
| Gallant Glory Limited | British Virgin Islands | US$1 | 68.4 | – | Investment holding |
| Gaud Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Securities trading and investment |
| Gestiones E Inversiones Cosmoland, S.L. | Spain | EUR3,000 | 68.4 | 68.4 | Hotel ownership and operations |
| Golden Vessel Investments Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| Grand Pyramid Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| Great Prestige Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | Percentage of equity interest attributable to the Company 2017 | Principal activities |
|---|---|---|---|---|---|
| Greatlead Investments Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| Harvest Charm Investment Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Financing |
| Hill Treasure Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Aircraft ownership and leasing |
| Honormate Nominees Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Securities investment and nominee services |
| Honrich Investment Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Financing |
| Impressive Galaxy Limited | British Virgin Islands | US$1 | 68.4 | – | Investment holding |
| Intellect Aquarius Limited | British Virgin Islands | US$1 | 68.4 | – | Investment holding |
| Jubilee Ace Holdings Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| Kaybro Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| Loraine Developments, S.L. | Spain | EUR3,000 | 68.4 | 68.4 | Hotel ownership |
| Maximum Good Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| Metropolitan Central Kitchen Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Food and beverage operations |
| Metropolitan F&B Management Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Provision of management services for food and beverage operations |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Metropolitan Umami (Tsim Sha Tsui East) Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Food and beverage operations |
| Million Sharp International Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| New Blossom International Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| PBL0781 Limited | Gibraltar | GBP2,000 | 68.4 | 68.4 | Aircraft ownership and leasing |
| PBL1017 Limited | Gibraltar | GBP2,000 | 58.1 | 58.1 | Aircraft ownership and leasing |
| Rainbow Petal Limited | British Virgin Islands | US$1 | 68.4 | – | Investment holding |
| Regal Concord Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Investment holding and financing |
| Regal Contracting Agency Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Contracting agency |
| Regal Estate Agents Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Estate agency |
| Regal Estate Management Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Estate management |
| Regal F&B Management Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Provision of management services for food and beverage operations |
| Regal F&B (ROH) Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Food and beverage operations |
| Regal F&B (RRH) Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Food and beverage operations |
| Regal Hotels (Holdings) Limited | Hong Kong | HK$1,151,598,638 | 68.4 | 68.4 | Investment holding and management services |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Regal Hotels Company Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Investment holding |
| Regal Hotels International Limited | Hong Kong | HK$100,000 | 68.4 | 68.4 | Hotel management and investment holding |
| Regal Hotels Management (BVI) Limited | British Virgin Islands/ Mainland China | US$1 | 68.4 | 68.4 | Investment holding and hotel management |
| Regal International Limited | British Virgin Islands | US$20 | 68.4 | 68.4 | Investment and trademark holding |
| Regal International (BVI) Holdings Limited | British Virgin Islands | HK$10.1 | 68.4 | 68.4 | Investment holding |
| Regal Portfolio Management Limited | Hong Kong | HK$11,611,937 | 68.4 | 68.4 | Asset management |
| Regal Quality Foods Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Sale of food products |
| RH International Finance Limited | British Virgin Islands/ Hong Kong | US$1 | 68.4 | 68.4 | Financing |
| R.H.I. Licensing B.V. | The Netherlands | NLG40,000 | 68.4 | 68.4 | Trademark holding |
| Rich Capital Investment Limited | Hong Kong | HK$100 | 68.4 | 68.4 | Property development |
| Solution Key Investments Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Speedy Track Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| Success Path Investments Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| Swift Lion Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Aircraft ownership and leasing |
| Tenshine Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Securities trading and investment and financing |
| Top Esteem Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Aircraft ownership and leasing |
| Total Blessing Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| Total Wisdom Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| Treasure Dealer Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| Treasure Wagon Company Limited | Hong Kong | HK$2 | 68.4 | 68.4 | Operation of security storage lounge |
| Triumphant Sky Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Aircraft ownership and leasing |
| Unicorn Star Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Securities investment |
| Unique Sky Holdings Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| Vast Charm International Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Vivid Merit Limited | British Virgin Islands | US$1 | 68.4 | – | Investment holding |
| Wealth Virtue Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| Wealthy Path Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| Wealthy Smart Investments Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| Wing Bright Holdings Limited | British Virgin Islands | US$1 | 68.4 | 68.4 | Investment holding |
| Will Smart Investments Limited | Hong Kong | HK$1 | 68.4 | 68.4 | Property investment |
| Yuanman Enterprise Limited[v] | Hong Kong | HK$1 | – | 68.4 | Property investment |
| 廣州市富堡訂房服務有限公司[i] | PRC/ Mainland China | RMB100,000 | 68.4 | 68.4 | Room reservation services |
| 富豪酒店投資管理(上海)有限公司[i] | PRC/ Mainland China | US$140,000 | 68.4 | 68.4 | Hotel management |
| Regal Real Estate Investment Trust ("Regal REIT") | Hong Kong | 3,257,431,189 units | 51.0 | 51.0 | Property investment |
| Bauhinia Hotels Limited | Hong Kong | HK$2 | 51.0 | 51.0 | Hotel ownership |
| Cityability Limited | Hong Kong | HK$10,000 | 51.0 | 51.0 | Hotel ownership |
| Gala Hotels Limited | Hong Kong | HK$2 | 51.0 | 51.0 | Hotel ownership |
| Land Crown International Limited | Hong Kong | HK$1 | 51.0 | 51.0 | Hotel ownership |

| Name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered capital/ issued units | Percentage of equity interest attributable to the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| Regal Asset Holdings Limited | Bermuda/ Hong Kong | US$12,000 | 51.0 | 51.0 | Investment holding |
| Regal Riverside Hotel Limited | Hong Kong | HK$2 | 51.0 | 51.0 | Hotel ownership |
| Rich Day Investments Limited | Hong Kong | HK$1 | 51.0 | 51.0 | Financing |
| Ricobem Limited | Hong Kong | HK$100,000 | 51.0 | 51.0 | Hotel ownership |
| Sonnix Limited | Hong Kong | HK$2 | 51.0 | 51.0 | Property ownership and hotel operations |
| R-REIT International Finance Limited | British Virgin Islands | US$1 | 51.0 | 51.0 | Financing |
| Tristan Limited | Hong Kong | HK$20 | 51.0 | 51.0 | Hotel ownership |
| Wise Decade Investments Limited | Hong Kong | HK$1 | 51.0 | 51.0 | Hotel ownership |

Notes:

(i) These subsidiaries are registered as wholly foreign owned enterprises under PRC law.
(ii) This subsidiary is registered as a domestic enterprise under PRC law.
(iii) This is a fund registered as a limited partnership under PRC partnership law.
(iv) This subsidiary is registered as a foreign owned enterprise under PRC law.
(v) This subsidiary was disposed of during the year.

Except for Paliburg Development BVI Holdings Limited and Paliburg Property Development (Shanghai) Co., Ltd., all of the above 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 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* |
| HKFRS 9 | *Financial Instruments* |
| HKFRS 15 | *Revenue from Contracts with Customers* |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers* |
| Amendments to HKAS 40 | *Transfers of Investment Property* |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* |
| *Annual Improvements 2014-2016 Cycle* | 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").

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 | HKAS 39 measurement Amount HK$'million | Re-classification HK$'million | ECL HK$'million | HKFRS 9 measurement Amount HK$'million | HKFRS 9 measurement Category |
|---|---|---|---|---|---|---|---|
| Financial assets | | | | | | | |
| Available-for-sale investments | | AFS[1] | 385.8 | (385.8) | – | – | N/A |
| To: Financial assets at fair value through profit or loss | (i) | | | (385.8) | – | | |
| Held-to-maturity investments | | HTM[2] | 167.9 | (167.9) | – | – | N/A |
| To: Financial assets at amortised cost | (ii) | | | (167.9) | – | | |
| Financial assets at amortised cost | | N/A | – | 167.9 | – | 167.9 | AC[3] |
| From: Held-to-maturity investments | (ii) | | | 167.9 | – | | |
| Financial assets at fair value through profit or loss | | FVPL[4] | 1,618.2 | 385.8 | – | 2,004.0 | FVPL[4] |
| From: Available-for-sale investments | (i) | | | 385.8 | – | | |
| Loans receivable | | L&R[5] | 116.4 | – | – | 116.4 | AC[3] |
| Finance lease receivables | | L&R[5] | 37.1 | – | – | 37.1 | AC[3] |
| Trade debtors | (iii) | L&R[5] | 147.4 | – | – | 147.4 | AC[3] |
| Other financial assets included in debtors, deposits and prepayments | | L&R[5] | 244.3 | – | – | 244.3 | AC[3] |
| Restricted cash | | L&R[5] | 145.6 | – | – | 145.6 | AC[3] |
| Pledged time deposits and bank balances | | L&R[5] | 550.4 | – | – | 550.4 | AC[3] |
| Time deposits | | L&R[5] | 1,896.5 | – | – | 1,896.5 | AC[3] |
| Cash and bank balances | | L&R[5] | 2,224.7 | – | – | 2,224.7 | AC[3] |
| | | | 7,534.3 | – | – | 7,534.3 | |
| Other assets | | | | | | | |
| Other assets included in debtors, deposit and prepayments | (iii) | | 384.1* | – | – | 384.1 | |

* Inclusive of an amount of HK$35.4 million which is classified as contract assets.

| | HKAS 39 measurement | | Re- | | HKFRS 9 measurement | |
|---|---|---|---|---|---|---|
| | Category | Amount HK$'million | classification HK$'million | ECL HK$'million | Amount HK$'million | Category |
| Financial liabilities | | | | | | |
| Trade creditors | AC[3] | 87.0 | – | – | 87.0 | AC[3] |
| Other financial liabilities included in creditors and accruals | AC[3] | 859.0 | – | – | 859.0 | AC[3] |
| Interest-bearing bank borrowings | AC[3] | 13,393.6 | – | – | 13,393.6 | AC[3] |
| Other borrowings | AC[3] | 4,659.5 | – | – | 4,659.5 | AC[3] |
| Deposits received | AC[3] | 69.9 | – | – | 69.9 | AC[3] |
| Derivative financial instruments | FVPL[4] | 3.0 | – | – | 3.0 | FVPL[4] |
| | | 19,072.0 | – | – | 19,072.0 | |

1 AFS: Available-for-sale investments
2 HTM: Held-to-maturity investments
3 AC: Financial assets or financial liabilities at amortised cost
4 FVPL: Financial assets or financial liabilities at fair value through profit or loss
5 L&R: Loans and receivables

Notes:

(i) 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.

(ii) The Group has classified its 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 payment of principal and interest on the principal amount outstanding.

(iii) The gross carrying amounts of the trade debtors and contract assets under the column "HKAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs.

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

| | **Reserve and retained profits HK$'million** |
|---|---|
| Available-for-sale investment revaluation reserve under HKAS 39 | |
| Balance as at 31st December, 2017 under HKAS 39 | 71.5 |
| Reclassification of available-for-sale investments to financial assets at fair value through profit or loss | (71.5) |
| Balance as at 1st January, 2018 under HKFRS 9 | – |
| Retained profits | |
| Balance as at 31st December, 2017 under HKAS 39 | 9,487.7 |
| Reclassification of available-for-sale investments to financial assets at fair value through profit or loss | 71.5 |
| Balance as at 1st January, 2018 under HKFRS 9 | 9,559.2 |

**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 the relevant financial statement line items were affected as at 1st January, 2018 as a result of the adoption of HKFRS 15:

| | Notes | Increase/ (Decrease) HK$'million |
|---|---|---|
| **Assets** | | |
| Properties under development (current) | (i) | 136.9 |
| **Liabilities** | | |
| Creditors and accruals | (ii), (iii) | (61.0) |
| Deposits received | (i) | (2,522.9) |
| Contract liabilities | (i), (ii), (iii) | 2,720.8 |
| Total liabilities | | 136.9 |

Set out below are the amounts by which each financial statement line item was affected as at 31st December, 2018 and for the year ended 31st December, 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no significant impact 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 profit or loss for the year ended 31st December, 2018:

| | | Amounts prepared under | | |
|---|---|---|---|---|
| | Notes | HKFRS 15<br>HK$'million | Previous HKFRSs<br>HK$'million | Increase<br>HK$'million |
| Revenue | (i) | 5,894.3 | 5,736.9 | 157.4 |
| Cost of sales | (i) | (3,892.2) | (3,755.4) | 136.8 |
| Gross profit | | 2,002.1 | 1,981.5 | 20.6 |
| Finance costs | (i) | 436.0 | 429.3 | 6.7 |
| Profit before tax | | 572.1 | 558.2 | 13.9 |
| Profit for the year before allocation between equity holders of the parent and non-controlling interests | | 427.6 | 413.7 | 13.9 |
| Attributable to: | | | | |
| Equity holders of the parent | | 321.0 | 309.4 | 11.6 |
| Non-controlling interests | | 106.6 | 104.3 | 2.3 |
| | | 427.6 | 413.7 | 13.9 |
| Earnings per ordinary share attributable to equity holders of the parent | | | | |
| Basic | | HK21.75 cents | HK20.71 cents | HK1.04 cent |

Extract of consolidated statement of comprehensive income for the year ended 31st December, 2018:

| | | Amounts prepared under | | |
|---|---|---|---|---|
| | Note | HKFRS 15<br>HK$ million | Previous HKFRSs<br>HK$ million | Increase<br>HK$ million |
| Profit for the year | | 427.6 | 413.7 | 13.9 |
| Exchange differences on translation of foreign operations | (i) | (138.1) | (137.6) | 0.5 |
| Total comprehensive income for the year | | 289.5 | 276.1 | 13.4 |

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

| | | Amounts prepared under | | |
|---|---|---|---|---|
| | | | Previous | Increase/ |
| | | HKFRS 15 | HKFRSs | (Decrease) |
| | Notes | HK$'million | HK$'million | HK$'million |
| Properties held for sale | (i) | 6,128.7 | 6,114.7 | 14.0 |
| Total assets | | 44,907.6 | 44,893.6 | 14.0 |
| Creditors and accruals | (ii), (iii) | 1,177.1 | 1,229.8 | (52.7) |
| Deposits received | (i) | 28.9 | 312.4 | (283.5) |
| Contract liabilities | (i), (ii), (iii) | 336.8 | – | 336.8 |
| Total liabilities | | 23,337.9 | 23,337.3 | 0.6 |
| Net assets | | 21,569.7 | 21,556.3 | 13.4 |
| Retained profits | (i) | 9,682.1 | 9,670.5 | 11.6 |
| Exchange equalisation reserve | (i) | (143.7) | (143.3) | (0.4) |
| Non-controlling interests | (i) | 6,065.5 | 6,063.3 | 2.2 |
| Total equity | | 21,569.7 | 21,556.3 | 13.4 |

The nature of the adjustments as at 1st January, 2018 and the reasons for the significant changes in the statement of financial position as at 31st December, 2018, the statement of profit or loss and the statement of comprehensive income for the year ended 31st December, 2018 are described below:

(i) Significant financing component for sales of properties

Prior to the adoption of HKFRS 15, the Group presented sales proceeds received from customers in connection with the Group's pre-sales of properties as receipts in advance under deposits received in the consolidated statement of financial position. No interest was accrued on the long-term advances received under the previous accounting policy.

Upon adoption of HKFRS 15, the Group recognised contract liabilities for the interest on the sales proceeds received from customers with a significant financing component. The Group elected to apply the practical expedient and did not recognise the effects of a significant financing component with a customer if the time period is one year or less. The adoption of HKFRS 15 has had no significant impact on the opening balance of retained profits as at 1st January, 2018. Significant financing component on the sales proceeds received in advance directly attributable to the construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, is capitalised as part of the cost of those assets. Advance payments from customers that were previously classified under deposits received have been reclassified to contract liabilities as at 1st January, 2018.

(ii) 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 and accruals to contract liabilities as at 1st January, 2018.

(iii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as creditors 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 | *Definition of a Business*[2] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 16 | *Leases*[1] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material*[2] |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement*[1] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[1] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[1] |
| *Annual Improvements 2015-2017 Cycle* | 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 44(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$31.4 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**

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.

The Group's investments in associates 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 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, 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 are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred.

**(c) Interests in joint operations**

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. 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 recognises in relation to its interests in joint operations:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operations;
- its share of the revenue from the sale of the output by the joint operations; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interests in joint operations are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

**(d) 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.

**(e) 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, construction contract assets, financial assets, investment properties, aircraft held for sale and deferred tax assets), 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 other than goodwill 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/amortisation) 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.

**(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" below. For a transfer from properties held for sale to investment properties, any difference between the fair value of the property at the date of change in use and its previous carrying amount is recognised in the statement of profit or loss.

### (g) 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 ranging from 2.14% to 4.0% has been applied to the expenditure on the individual assets.

### (h) 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.

### (i) 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 and fair value through profit or loss, as appropriate.

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.

**(j) 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.

**(k) 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 and contract assets 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 and contract assets 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.

### (l) 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.

**(m) 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.

**(n) 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 financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

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*
After initial recognition, interest bearing loans and borrowings 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 recognised 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.

### (o) 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.

### (p) 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.

### (q) 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 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.

### (r) 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.

**(s) 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.

**(t) 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.

### (u) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

### (v) Construction contracts (applicable before 1st January, 2018)

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads, including any related finance charges.

Revenue from short term construction contracts is recognised upon completion of the construction work.

Revenue from long term fixed price construction contracts is recognised by reference to the work certified by architects for the relevant contract. Gross construction profit is recognised when the relevant contract has been completed not less than 50% using the percentage of completion method.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

**(w) 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) Sale of properties

For properties that have no alternative use to the Group due to contractual reasons and when the Group has an enforceable right to payment from customers for performance completed to date, the Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method for measuring progress. The excess of the cumulative revenue recognised in profit or loss over the cumulative billings to purchasers of properties is recognised as contract assets. The excess of cumulative billings to purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

The Group has assessed that most revenue from the sale of properties is recognised at the point in time when the purchasers obtain the physical possession or the legal title of the completed property and the Group has a present right to payment and the collection of the consideration is probable.

Some contracts for the sale of properties involve a difference in timing between the timing of payments and the transfer of properties. The difference in timing give rises to a significant financing component.

(ii) Sale of aircraft

Revenue from the sale of 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 aircraft.

(iii) 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.

(iv) Construction services

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration 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. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

(v) Estate management service

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

(vi) 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.

**(x) 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) rental income, in the period in which the properties/aircraft are let and on the straight-line basis over the lease terms;

(iii) 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;

(iv) fee income on short term construction contracts, on completion of the construction work;

(v) fee income on long term construction contracts, using the percentage of completion basis as further explained in note 2.4(v) (applicable before 1st January, 2018) above;

(vi) 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;

(vii) dividend income, when the shareholders' right to receive payment has been established;

(viii) net gain or loss from sale of investments at fair value through profit or loss, on the transaction dates when the relevant contract notes are exchanged;

(ix) consultancy and management fees, in the period in which such services are rendered;

(x) logistics and related services income, in the period in which such services are rendered;

(xi) 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; and

(xii) income from maintenance reserves released, when the Group's obligation to make any further reimbursements in relation to the aircraft maintenance is extinguished.

**(y) Contract assets (applicable from 1st January, 2018)**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

**(z) 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.

**(aa) Contract costs (applicable from 1st January, 2018)**

Other than the costs which are capitalised as properties held for sale and properties under development, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

**(ab) 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 that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. 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).

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 and associates are currencies other than the Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the 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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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.

**(ac) 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 goodwill or 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 and associates, 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 and associates, 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.

## (ad) 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 lease so as to achieve a constant rate of interest on the remaining balance of the net investment in finance leases. Interest income from finance leases 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.

## (ae) 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 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.

### (af) 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 of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

### (ag) 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.

### (ah) 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 the 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.

### (ai) 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 recognised in the statement of profit or loss.

### (aj) Perpetual securities

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

### (ak) 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:

*Classification of leases - Group as lessor*
The Group has entered into commercial property leases on its property 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 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.

*Classification between investment properties and properties held for sale*

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in non-current and current assets if the properties are intended for sale after their completion, whereas, the properties are accounted for as investment properties under construction included in investment properties if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are subject to revaluation at the end of each reporting period.

*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.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31st December, 2018 was HK$261.0 million (2017 - HK$261.0 million). Further details are given in note 23 to the financial statements.

*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., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing 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 customer's actual default in the future. The information about the ECLs on the Group's trade debtors is disclosed in note 27 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 had been recognised for property, plant and equipment as further disclosed in note 13 to the financial statements. The carrying amount of the Group's property, plant and equipment as at 31st December, 2018 was HK$22,969.3 million (2017 - HK$22,671.7 million).

*Impairment of loans and receivables*

Before 1st January, 2018, the Group assessed at the end of each reporting period whether there was objective evidence that a loan/receivable was impaired. To determine whether there was objective evidence of impairment, the Group considered factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there was objective evidence of impairment, the amount and timing of future cash flows were estimated based on historical loss experience for assets with similar credit risk characteristics.

The Group maintained an allowance for estimated impairment of receivables arising from the inability of its customers and debtors to make the required payments. The Group made its estimates based on, inter alia, the ageing of its receivable balances, customers' and debtors' creditworthiness, past repayment history and historical write-off experience. If the financial condition of its customers and debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

*Estimation of net realisable values of properties under development and held for sale*
The Group performs regular review of the carrying amounts of properties under development and held for sale with reference to prevailing market data such as most recent sale transactions and internal estimates such as future selling prices and costs to completion of properties.

Based on this review, write-down of properties will be made when the estimated net realisable value declines below their carrying amounts. Due to changes in market and economic conditions, management's estimates may be adjusted.

*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 dates 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$3,782.3 million (2017 - HK$3,445.2 million). Further details, including the key assumptions used for fair value measurement are 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$760.3 million (2017 - HK$720.4 million). Further details are contained in note 35 to the financial statements.

*Allocation of construction costs on properties under development*

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to properties held for sale upon completion. An apportionment of these costs will be recognised in the statement of profit or loss upon the recognition of the sales of properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated saleable area of the entire project.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

*Estimation of useful life of trademark*

The Group assesses the useful life of the trademark to be indefinite. This determination requires the Group to make assumptions and estimates of the expected future cash flows of the hotel group to which the trademark relates and the ability to renew the legal right of the trademark at insignificant cost indefinitely. The Group assesses the useful life of the trademark annually to determine whether events or circumstances continue to support the indefinite useful life of the trademark.

*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 lives and residual values are reviewed at least on an annual basis. The carrying amount of the Group's aircraft 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 seven reportable operating segments as follows:

(a) the property development and investment segment comprises the development and sale of properties, the leasing of properties and the provision of estate agency services;

(b) the construction and building related businesses segment engages in construction works and building related businesses, including the provision of development consultancy and project management services, property management and also security systems and products and other software development and distribution;

(c) 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;

(d) the asset management segment engages in the provision of asset management services to Regal REIT;

(e) the financial assets investments segment engages in trading of financial assets at fair value through profit or loss and other financial assets investments;

(f) the aircraft ownership and leasing segment engages in the aircraft ownership and leasing for rental and interest income; and

(g) the others segment mainly comprises the provision of financing services, travel agency services, sale of food products, operation and management of restaurants, operation of security storage lounge, the provision of housekeeping services, logistics and related services and development and distribution of multimedia entertainment and digital educational content and multi-platform social games.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that certain interest income, finance costs, head office and corporate gains and expenses are excluded from such measurement.

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

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

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

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's operating segments for the years ended 31st December, 2018 and 2017:

| | Property development and investment | | Construction and building related businesses | | Hotel operation and management and hotel ownership | | Asset management | | Financial assets investments | | Aircraft ownership and leasing | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m |
| Segment revenue (note 5) | | | | | | | | | | | | | | | | | | |
| Sales to external customers | 3,295.9 | 1,109.9 | 9.3 | 18.8 | 2,377.9 | 2,286.6 | - | - | 74.6 | 104.2 | 119.1 | 39.7 | 17.5 | 29.4 | - | - | 5,894.3 | 3,588.6 |
| Intersegment sales | 7.1 | 7.1 | 268.0 | 175.7 | 7.1 | 8.2 | 114.1 | 119.9 | - | - | - | - | 103.2 | 76.2 | (499.5) | (387.1) | - | - |
| **Total** | **3,303.0** | **1,117.0** | **277.3** | **194.5** | **2,385.0** | **2,294.8** | **114.1** | **119.9** | **74.6** | **104.2** | **119.1** | **39.7** | **120.7** | **105.6** | **(499.5)** | **(387.1)** | **5,894.3** | **3,588.6** |
| Segment results before depreciation and amortisation | 830.3 | 797.8 | (0.1) | (0.1) | 976.4 | 852.1 | (13.1) | (13.3) | (131.7) | 177.5 | 61.9 | 31.8 | 0.7 | 3.6 | - | - | 1,724.4 | 1,849.4 |
| Depreciation and amortisation | (20.4) | (24.2) | (0.2) | (0.4) | (548.4) | (539.1) | (0.4) | (0.4) | - | - | (18.2) | (22.4) | (3.8) | (12.5) | - | - | (591.4) | (599.0) |
| Segment results | 809.9 | 773.6 | (0.3) | (0.5) | 428.0 | 313.0 | (13.5) | (13.7) | (131.7) | 177.5 | 43.7 | 9.4 | (3.1) | (8.9) | - | - | 1,133.0 | 1,250.4 |
| Unallocated interest income and unallocated non-operating and corporate gains | | | | | | | | | | | | | | | | | 62.1 | 56.6 |
| Unallocated non-operating and corporate expenses | | | | | | | | | | | | | | | | | (184.7) | (161.4) |
| Operating profit | | | | | | | | | | | | | | | | | **1,010.4** | **1,145.6** |
| Finance costs | | | | | | | | | | | | | | | | | **(436.0)** | **(309.4)** |
| Share of profits and losses of associates | (2.4) | (8.3) | - | - | - | - | - | - | - | - | - | - | 0.1 | (18.3) | - | - | **(2.3)** | **(26.6)** |
| Profit before tax | | | | | | | | | | | | | | | | | **572.1** | **809.6** |
| Income tax | | | | | | | | | | | | | | | | | **(144.5)** | **(91.5)** |
| Profit for the year before allocation between equity holders of the parent and non-controlling interests | | | | | | | | | | | | | | | | | **427.6** | **718.1** |
| Attributable to: | | | | | | | | | | | | | | | | | | |
| Equity holders of the parent | | | | | | | | | | | | | | | | | **321.0** | **528.5** |
| Non-controlling interests | | | | | | | | | | | | | | | | | **106.6** | **189.6** |
| | | | | | | | | | | | | | | | | | **427.6** | **718.1** |

| | Property development and investment | | Construction and building related businesses | | Hotel operation and management and hotel ownership | | Asset management | | Financial assets investments | | Aircraft ownership and leasing | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m | 2018 HK$'m | 2017 HK$'m |
| Segment assets | 16,077.0 | 15,966.5 | 39.5 | 46.4 | 21,804.4 | 22,090.4 | 51.0 | 52.1 | 3,228.9 | 2,207.6 | 414.6 | 277.3 | 172.2 | 133.1 | (51.3) | (50.7) | 41,736.3 | 40,722.7 |
| Investments in associates | 0.1 | 17.0 | – | – | – | – | – | – | – | – | – | – | 6.0 | 5.6 | – | – | 6.1 | 22.6 |
| Cash and unallocated assets | | | | | | | | | | | | | | | | | 3,165.2 | 4,887.1 |
| Total assets | | | | | | | | | | | | | | | | | 44,907.6 | 45,632.4 |
| Segment liabilities | (1,021.3) | (3,097.9) | (50.4) | (49.9) | (430.4) | (416.5) | (2.1) | (2.3) | (3.5) | (3.6) | (67.7) | (86.1) | (13.7) | (5.0) | 51.3 | 50.7 | (1,537.8) | (3,610.6) |
| Interest bearing bank borrowings and unallocated liabilities | | | | | | | | | | | | | | | | | (21,800.1) | (20,319.0) |
| Total liabilities | | | | | | | | | | | | | | | | | (23,337.9) | (23,929.6) |
| Other segment information: | | | | | | | | | | | | | | | | | | |
| Capital expenditure | 2,246.4 | 1,925.2 | 0.1 | – | 173.6 | 3,692.2 | – | 0.3 | – | – | 282.1 | 145.4 | 19.8 | 3.2 | | | | |
| Gain on disposal of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | – | – | (0.2) | | | | |
| Gain on disposal of investment properties | – | (0.1) | – | – | – | – | – | – | – | – | – | – | – | – | | | | |
| Loss/(Gain) on disposal of items of property, plant and equipment, net | – | (14.4) | – | – | – | 0.8 | – | – | – | – | 1.2 | (5.2) | – | – | | | | |
| Reversal of impairment of loans receivable | – | – | – | – | – | – | – | – | – | – | – | – | (0.1) | (0.1) | | | | |
| Write-back of impairment loss on property under development | – | (57.0) | – | – | – | – | – | – | – | – | – | – | – | – | | | | |
| Impairment loss on items of property, plant and equipment | – | – | – | – | – | – | – | – | – | – | – | 50.5 | – | – | | | | |
| Impairment of trade debtors | – | – | – | – | 2.6 | 0.1 | – | – | – | – | – | – | 0.3 | – | | | | |
| Fair value losses/(gains) on financial assets at fair value through profit or loss, net | – | – | – | – | – | – | – | – | 214.8 | (61.3) | – | – | – | 2.1 | | | | |
| Fair value gains on investment properties, net | (186.1) | (669.2) | – | – | (5.6) | (2.0) | – | – | – | – | – | – | – | – | | | | |
| Fair value loss upon reclassification of properties held for sale to investment properties | 0.7 | – | – | – | – | – | – | – | – | – | – | – | – | – | | | | |
| Interest income | (0.8) | (37.4) | – | – | – | – | – | – | (110.0) | (54.6) | (1.9) | (4.8) | (4.0) | (3.3) | | | | |
| Maintenance reserves released | – | – | – | – | – | – | – | – | – | – | (34.4) | (54.7) | – | – | | | | |

Geographical information

(a) Revenue from external customers

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Hong Kong | **3,611.1** | 2,652.5 |
| Mainland China | **2,152.6** | 850.0 |
| Other | **130.6** | 86.1 |
| | **5,894.3** | 3,588.6 |

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 | **28,077.4** | 27,168.7 |
| Mainland China | **1,583.5** | 1,664.6 |
| Other | **589.4** | 333.7 |
| | **30,250.3** | 29,167.0 |

The non-current assets information above is based on the locations of 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.

## 5. REVENUE, OTHER INCOME AND GAINS, NET

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

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Revenue | | |
| *Revenue from contracts with customers* | | |
| Proceeds from sale of properties | **3,237.3** | 1,098.9 |
| Proceeds from disposal of aircraft held for sale | **80.4** | – |
| Hotel operations and management services | **2,312.8** | 2,236.1 |
| Construction and construction-related income | **3.6** | 13.3 |
| Estate management fees | **5.7** | 5.5 |
| Other operations | **13.3** | 17.2 |
| *Revenue from other sources* | | |
| Rental income: | | |
| Hotel properties | **48.2** | 41.8 |
| Investment properties | **72.0** | 17.1 |
| Properties under development | **0.6** | – |
| Properties held for sale | **2.9** | 2.6 |
| Aircraft | **36.8** | 34.9 |
| Net gain/(loss) from sale of financial assets at fair value through profit or loss* | **(34.8)** | 38.0 |
| Net gain/(loss) on settlement of derivative financial instruments | **(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 | **15.9** | 12.4 |
| Logistics and related services income | **–** | 9.1 |
| Other operations | **4.2** | 3.1 |
| | **5,894.3** | 3,588.6 |

* Inclusive of dividend income from fund investments of HK$155.9 million and net loss on disposal of fund investments of HK$158.4 million for the year ended 31st December, 2017. These fund investments were purchased and sold during 2017 and were considered as linked transactions. The Directors are of the opinion that offsetting of the amounts better reflects the substance of these linked transactions.

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 | Property development and investment HK$'million | Construction and building related businesses HK$'million | Hotel operation and management and hotel ownership HK$'million | Aircraft ownership and leasing HK$'million | Others HK$'million | Total HK$'million |
| **Type of goods or services** | | | | | | |
| Construction and construction-related income | – | 3.6 | – | – | – | 3.6 |
| Sale of properties | 3,237.3 | – | – | – | – | 3,237.3 |
| Estate management fees | – | 5.7 | – | – | – | 5.7 |
| Sale of aircraft | – | – | – | 80.4 | – | 80.4 |
| Hotel operations and management services | | | | | | |
| Hotel operations | – | – | 2,300.8 | – | – | 2,300.8 |
| Management services | – | – | 12.0 | – | – | 12.0 |
| Other operations | – | – | – | – | 13.3 | 13.3 |
| Total revenue from contracts with customers | 3,237.3 | 9.3 | 2,312.8 | 80.4 | 13.3 | 5,653.1 |
| **Geographical markets** | | | | | | |
| Hong Kong | 1,096.6 | 9.3 | 2,300.8 | – | 13.3 | 3,420.0 |
| Mainland China | 2,140.7 | – | 12.0 | – | – | 2,152.7 |
| Other | – | – | – | 80.4 | – | 80.4 |
| Total revenue from contracts with customers | 3,237.3 | 9.3 | 2,312.8 | 80.4 | 13.3 | 5,653.1 |
| **Timing of revenue recognition** | | | | | | |
| At a point of time | 3,237.3 | 0.3 | 627.6 | 80.4 | 13.3 | 3,958.9 |
| Over time | – | 9.0 | 1,685.2 | – | – | 1,694.2 |
| Total revenue from contracts with customers | 3,237.3 | 9.3 | 2,312.8 | 80.4 | 13.3 | 5,653.1 |

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

| | For the year ended 31st December, 2018 | | | | | |
|---|---|---|---|---|---|---|
| Segments | Property development and investment HK$'million | Construction and building related businesses HK$'million | Hotel operation and management and hotel ownership HK$'million | Aircraft ownership and leasing HK$'million | Others HK$'million | Total HK$'million |
| **Revenue from contracts with customers** | | | | | | |
| External customers | 3,237.3 | 9.3 | 2,312.8 | 80.4 | 13.3 | 5,653.1 |
| Intersegment sales | 2.2 | 268.0 | – | – | 103.2 | 373.4 |
| | 3,239.5 | 277.3 | 2,312.8 | 80.4 | 116.5 | 6,026.5 |
| Intersegment adjustments and eliminations | (2.2) | (268.0) | – | – | (103.2) | (373.4) |
| Total revenue from contracts with customers | 3,237.3 | 9.3 | 2,312.8 | 80.4 | 13.3 | 5,653.1 |

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 |
|---|---|
| Sale of properties | 2,604.4 |
| Hotel operations and management services | 52.4 |
| | 2,656.8 |

(ii) Performance obligations

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

*Sale of properties*
The performance obligation is satisfied upon delivery of the properties. Customers generally purchased and paid the customer deposit during pre-sale more than one year before delivery of the properties. The transaction prices were adjusted to reflect the effects of the time value of money and the significant benefit of financing.

*Sale of aircraft*
The performance obligation is satisfied upon delivery of the aircraft.

*Hotel 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.

*Construction services*
The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

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

*Sale of 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, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

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 | 255.2 |
| More than one year | 292.7 |
| | 547.9 |

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Other income and gains, net | | |
| Bank interest income | **44.6** | 53.7 |
| Other interest income | **29.7** | 53.9 |
| Dividend income from unlisted investments | **5.9** | 3.8 |
| Gain on disposal of an investment property | **–** | 0.1 |
| Gain/(Loss) on disposal of items of property, plant and equipment, net | **(1.2)** | 18.8 |
| Maintenance reserves released | **34.4** | 54.7 |
| Others | **6.6** | 2.5 |
| | **120.0** | 187.5 |

## 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 | **3,558.0** | 1,983.8 |
| Depreciation | **592.6** | 592.7 |
| Amortisation of intangible assets | **–** | 7.8 |
| | **592.6** | 600.5 |
| Employee benefit expense* (exclusive of Directors' remuneration disclosed in note 8): | | |
| Salaries, wages and allowances | **789.7** | 773.7 |
| Staff retirement scheme contributions | **38.1** | 36.8 |
| Less: Forfeited contributions | **(1.1)** | (1.1) |
| | **826.7** | 809.4 |
| Less: Staff costs capitalised in respect of property development projects and construction contracts: | | |
| Salaries, wages and allowances | **(41.8)** | (44.9) |
| Staff retirement scheme contributions | **(3.0)** | (3.1) |
| | **781.9** | 761.4 |

* Inclusive of an amount of HK$632.9 million (2017 - HK$624.9 million) classified under the cost of inventories sold and services provided.

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Auditor's remuneration | **11.0** | 12.2 |
| Impairment of trade debtors | **2.9** | 0.1 |
| Reversal of impairment of loans receivable | **(0.1)** | (0.1) |
| Minimum lease payments under operating leases | **31.2** | 31.9 |
| Less: Minimum lease payments capitalised in respect of construction contracts | **(0.4)** | (0.4) |
| | **30.8** | 31.5 |
| Write-off of items of property, plant and equipment | **1.2** | – |
| Write-off of other receivable | **0.2** | – |
| Fair value losses/(gains) on financial assets at fair value through profit or loss, net | | |
| – held for trading | **242.2** | (64.4) |
| – derivative instruments – transactions not qualifying as hedges | **(27.4)** | 3.0 |
| – contingent consideration receivable | **–** | 2.2 |
| | **214.8** | (59.2) |
| Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties | **34.5** | 5.5 |
| Foreign exchange differences, net# | **22.7** | 3.3 |

# Inclusive of a loss on settlement of foreign currency forward contracts of HK$3.0 million and net foreign exchange loss of HK$0.3 million for the year ended 31st December, 2017.

## 7. FINANCE COSTS

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Interest on bank loans | **413.1** | 201.4 |
| Interest on other borrowings | **134.3** | 268.7 |
| Interest on convertible bonds | **–** | 2.5 |
| Interest expenses arising from revenue contracts | **22.6** | – |
| Other interest | **–** | 0.8 |
| Amortisation of debt establishment costs | **44.1** | 41.3 |
| Total interest expenses on financial liabilities not at fair value through profit or loss | **614.1** | 514.7 |
| Other loan costs | **10.5** | 13.2 |
| | **624.6** | 527.9 |
| Less: Finance costs capitalised | **(188.6)** | (218.5) |
| | **436.0** | 309.4 |

## 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 | **6.5** | 6.5 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **30.3** | 29.1 |
| Performance related/discretionary bonuses | **4.6** | 3.7 |
| Staff retirement scheme contributions | **2.1** | 2.0 |
| | **43.5** | 41.3 |

(a) Independent non-executive directors

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

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Mr. Bowen Joseph Leung Po Wing, GBS, JP | **0.55** | 0.55 |
| Mr. Ng Siu Chan# | **–** | 0.70 |
| Ms. Winnie Ng, JP* | **0.70** | – |
| Hon Abraham Shek Lai Him, GBS, JP | **0.85** | 0.85 |
| Mr. Wong Chi Keung | **0.80** | 0.80 |
| | **2.90** | 2.90 |

# 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 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, amounted to HK$2.90 million (2017 - HK$2.90 million, which also included fees for serving as members of the Board Committee).
- The fees paid to Mr. Bowen Joseph Leung Po Wing, GBS, JP for the year ended 31st December, 2018 also included a fee for serving as an independent non-executive director as well as a member of the audit committee of Regal Portfolio Management Limited ("RPML") (the manager of Regal REIT) amounted to HK$0.25 million (2017 - HK$0.25 million).
- The fees paid to Ms. Winnie Ng, JP for the year ended 31st December, 2018 also included a fee for serving as an independent non-executive director as well as a member of each of the audit committee, the nomination committee and the remuneration committee of RHIHL amounted to HK$0.35 million (2017 - Nil).
- The fees paid to Hon Abraham Shek Lai Him, GBS, JP for the year ended 31st December, 2018 also included a fee for serving as (i) an independent non-executive director as well as a member of each of the audit committee and the nomination committee of Cosmopolitan; and (ii) an independent non-executive director as well as a member of the audit committee of RPML amounted to HK$0.55 million (2017 - HK$0.55 million).
- The fees paid to Mr. Wong Chi Keung for the year ended 31st December, 2018 also included a fee for serving as an independent non-executive director, the chairman of the audit committee as well as a member of each of the nomination committee and the remuneration committee of RHIHL amounted to HK$0.40 million (2017 - HK$0.40 million).
- The fees paid to Mr. Ng Siu Chan for the year ended 31st December, 2017 also included a fee for serving as an independent non-executive director as well as a member of each of the audit committee, the nomination committee and the remuneration committee of RHIHL amounted to HK$0.35 million.

There were no other emoluments payable to the independent 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 | 0.90 | 12.82 | 1.91 | 0.91 | 16.54 |
| Mr. Jimmy Lo Chun To | 0.60 | 4.77 | 0.51 | 0.24 | 6.12 |
| Mr. Donald Fan Tung | 0.45 | 2.59 | 0.60 | 0.26 | 3.90 |
| Miss Lo Po Man | 0.60 | 4.93 | 0.53 | 0.26 | 6.32 |
| Mr. Kenneth Ng Kwai Kai | 0.70 | 2.81 | 0.53 | 0.24 | 4.28 |
| Mr. Kenneth Wong Po Man | 0.30 | 2.34 | 0.50 | 0.23 | 3.37 |
| | 3.55 | 30.26 | 4.58 | 2.14 | 40.53 |
| **2017** | | | | | |
| Mr. Lo Yuk Sui | 0.90 | 12.36 | 1.44 | 0.86 | 15.56 |
| Mr. Jimmy Lo Chun To | 0.60 | 4.64 | 0.38 | 0.23 | 5.85 |
| Mr. Donald Fan Tung | 0.45 | 2.45 | 0.53 | 0.25 | 3.68 |
| Miss Lo Po Man | 0.60 | 4.79 | 0.40 | 0.24 | 6.03 |
| Mr. Kenneth Ng Kwai Kai | 0.70 | 2.68 | 0.48 | 0.22 | 4.08 |
| Mr. Kenneth Wong Po Man | 0.30 | 2.22 | 0.46 | 0.22 | 3.20 |
| | 3.55 | 29.14 | 3.69 | 2.02 | 38.40 |

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; (ii) a fee of HK$0.15 million per annum for serving as an executive director of RHIHL and 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 RHIHL; (iii) a fee of HK$0.15 million per annum for serving as an executive director of Cosmopolitan and 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 Cosmopolitan; and (iv) a fee of HK$0.15 million per annum for serving as a non-executive director of RPML.

– Mr. Jimmy Lo Chun To and Miss Lo Po Man also included (i) a fee of HK$0.15 million per annum entitled by each of these Directors for serving as an executive director of RHIHL; (ii) a fee of HK$0.15 million per annum entitled by each of these Directors for serving as an executive director of Cosmopolitan; and (iii) 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. Donald Fan Tung also included (i) a fee of HK$0.15 million per annum for serving as an executive director of RHIHL; and (ii) a fee of HK$0.15 million per annum for serving as a non-executive director of RPML.

– Mr. Kenneth Ng Kwai Kai also included (i) a fee of HK$0.15 million per annum for serving as an executive director of RHIHL; (ii) a fee of HK$0.15 million per annum for serving as an executive director of Cosmopolitan; and (iii) 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.

– Mr. Kenneth Wong Po Man also included a fee of HK$0.15 million per annum for serving as an executive director of Cosmopolitan.

## 9. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid individuals during the year included five (2017 - five) Directors, details of whose remuneration are disclosed in note 8 to the financial statements.

## 10. INCOME TAX

| | 2018<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| Current – Hong Kong | | |
| Charge for the year | **90.8** | 85.2 |
| Overprovision in prior years | **(0.1)** | (4.3) |
| Current – Overseas | | |
| Charge for the year | **52.3** | 65.5 |
| PRC land appreciation tax | **67.1** | 4.5 |
| Deferred (note 35) | **(65.6)** | (59.4) |
| Total tax charge for the year | **144.5** | 91.5 |

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.

The PRC land appreciation tax ("LAT") is levied on the sale or transfer of state-owned land use rights, buildings and their attached facilities in Mainland China at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for the sale of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the Group's effective tax rate is as follows:

**2018**

| | Hong Kong and others HK$'million | % | Mainland China HK$'million | % | Total HK$'million |
|---|---|---|---|---|---|
| Profit before tax | **158.1** | | **414.0** | | **572.1** |
| Tax at the statutory tax rate | **26.1** | **16.5** | **103.5** | **25.0** | **129.6** |
| Adjustments in respect of current tax of previous years | **(0.1)** | | **–** | | **(0.1)** |
| Losses attributable to associates | **0.4** | | **–** | | **0.4** |
| Income not subject to tax | **(106.8)** | | **(2.4)** | | **(109.2)** |
| Expenses not deductible for tax | **83.5** | | **0.4** | | **83.9** |
| Tax losses utilised from previous years | **(24.4)** | | **(65.1)** | | **(89.5)** |
| Tax losses not recognised during the year | **50.9** | | **2.9** | | **53.8** |
| LAT provided | **–** | | **67.1** | | **67.1** |
| Tax effect on LAT | **–** | | **(16.8)** | | **(16.8)** |
| Lower tax rate enacted by local authority | **–** | | **(0.1)** | | **(0.1)** |
| Others | **20.8** | | **4.6** | | **25.4** |
| Tax charge at the Group's effective rate | **50.4** | | **94.1** | | **144.5** |

**2017**

| | Hong Kong and others HK$'million | % | Mainland China HK$'million | % | Total HK$'million |
|---|---|---|---|---|---|
| Profit before tax | 674.5 | | 135.1 | | 809.6 |
| Tax at the statutory tax rate | 111.3 | 16.5 | 33.8 | 25.0 | 145.1 |
| Adjustments in respect of current tax of previous years | (4.3) | | – | | (4.3) |
| Losses attributable to associates | 4.4 | | – | | 4.4 |
| Income not subject to tax | (174.4) | | (41.1) | | (215.5) |
| Expenses not deductible for tax | 107.6 | | 1.8 | | 109.4 |
| Tax losses utilised from previous years | (38.0) | | (11.2) | | (49.2) |
| Tax losses not recognised during the year | 40.4 | | 48.6 | | 89.0 |
| LAT provided | – | | 4.5 | | 4.5 |
| Tax effect on LAT | – | | (1.1) | | (1.1) |
| Lower tax rate enacted by local authority | – | | (5.8) | | (5.8) |
| Others | 13.7 | | 1.3 | | 15.0 |
| Tax charge at the Group's effective rate | 60.7 | | 30.8 | | 91.5 |

No provision for tax was required for the associates as no assessable profits were earned by the associates during the year (2017 - Nil).

## 11. DIVIDENDS

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Interim - HK2.8 cents (2017 - HK2.5 cents) per ordinary share | **31.2** | 27.9 |
| Proposed final - HK8.0 cents (2017 - HK8.0 cents) per ordinary share | **89.2** | 89.2 |
| | **120.4** | 117.1 |

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$321.0 million (2017 - HK$528.5 million), adjusted for the share of distribution related to perpetual securities of RHIHL and its subsidiaries (the "RHIHL Group") of HK$78.6 million (2017 - HK$55.1 million), and on the weighted average of 1,114.6 million (2017 - 1,114.6 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 | Properties under construction HK$'million | Leasehold improvements, furniture, fixtures and equipment HK$'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 | 20,826.2 | 397.1 | 3,423.0 | 675.4 | 4.1 | 311.6 | 2.5 | 25,639.9 |
| Accumulated depreciation and impairment | (2,497.1) | (52.6) | – | (311.2) | (2.7) | (104.6) | – | (2,968.2) |
| Net carrying amount | 18,329.1 | 344.5 | 3,423.0 | 364.2 | 1.4 | 207.0 | 2.5 | 22,671.7 |
| At 1st January, 2018, net of accumulated depreciation and impairment | 18,329.1 | 344.5 | 3,423.0 | 364.2 | 1.4 | 207.0 | 2.5 | 22,671.7 |
| Additions | – | – | 570.3 | 92.7 | 2.0 | 282.1 | 9.8 | 956.9 |
| Reclassification | – | – | – | 1.1 | – | – | (1.1) | – |
| Transfer to aircraft held for sale | – | – | – | – | – | (58.3) | – | (58.3) |
| Write-off/Disposals | – | – | – | (7.9) | (0.5) | (25.4) | – | (33.8) |
| Write-back of depreciation upon write-off/disposals/transfer | – | – | – | 6.7 | 0.5 | 18.0 | – | 25.2 |
| Depreciation provided during the year | (473.1) | (19.1) | – | (81.3) | (0.9) | (18.2) | – | (592.6) |
| Exchange realignment | – | (0.1) | – | (0.2) | – | 0.5 | – | 0.2 |
| At 31st December, 2018, net of accumulated depreciation | 17,856.0 | 325.3 | 3,993.3 | 375.3 | 2.5 | 405.7 | 11.2 | 22,969.3 |
| At 31st December, 2018: | | | | | | | | |
| Cost | 20,826.2 | 395.5 | 3,993.3 | 760.8 | 5.5 | 421.2 | 11.2 | 26,413.7 |
| Accumulated depreciation | (2,970.2) | (70.2) | – | (385.5) | (3.0) | (15.5) | – | (3,444.4) |
| Net carrying amount | 17,856.0 | 325.3 | 3,993.3 | 375.3 | 2.5 | 405.7 | 11.2 | 22,969.3 |

| | Hotel land and buildings HK$'million | Leasehold properties HK$'million | Properties under construction HK$'million | Leasehold improvements, furniture, fixtures and equipment HK$'million | Motor vehicles HK$'million | Aircraft HK$'million | Construction in progress HK$'million | Total HK$'million |
|---|---|---|---|---|---|---|---|---|
| **31st December, 2017** | | | | | | | | |
| At 1st January, 2017: | | | | | | | | |
| Cost | 19,532.3 | 425.2 | 977.6 | 577.1 | 4.1 | 305.3 | 4.4 | 21,826.0 |
| Accumulated depreciation | (2,039.6) | (35.5) | – | (230.1) | (2.2) | (89.6) | – | (2,397.0) |
| Net carrying amount | 17,492.7 | 389.7 | 977.6 | 347.0 | 1.9 | 215.7 | 4.4 | 19,429.0 |
| At 1st January, 2017, net of accumulated depreciation | 17,492.7 | 389.7 | 977.6 | 347.0 | 1.9 | 215.7 | 4.4 | 19,429.0 |
| Additions | 1,329.8 | – | 2,445.4 | 107.0 | 0.2 | 138.8 | 2.5 | 4,023.7 |
| Disposal of subsidiaries (note 40(c)) | – | – | – | (4.3) | – | – | – | (4.3) |
| Surplus on revaluation | 10.6 | – | – | – | – | – | – | 10.6 |
| Reclassification | – | – | – | 4.4 | – | – | (4.4) | – |
| Transfer to investment properties, net | (61.0) | – | – | (7.7) | – | – | – | (68.7) |
| Transfer to aircraft held for sale | – | – | – | – | – | (48.5) | – | (48.5) |
| Write-off/Disposals | – | (30.5) | – | (2.5) | (0.2) | (86.1) | – | (119.3) |
| Write-back of depreciation upon write-off/disposals/transfer | 7.8 | 7.0 | – | 1.7 | 0.2 | 58.6 | – | 75.3 |
| Depreciation provided during the year | (464.5) | (22.6) | – | (82.5) | (0.7) | (22.4) | – | (592.7) |
| Impairment | – | – | – | – | – | (50.5) | – | (50.5) |
| Exchange realignment | 13.7 | 0.9 | – | 1.1 | – | 1.4 | – | 17.1 |
| At 31st December, 2017, net of accumulated depreciation and impairment | 18,329.1 | 344.5 | 3,423.0 | 364.2 | 1.4 | 207.0 | 2.5 | 22,671.7 |
| At 31st December, 2017: | | | | | | | | |
| Cost | 20,826.2 | 397.1 | 3,423.0 | 675.4 | 4.1 | 311.6 | 2.5 | 25,639.9 |
| Accumulated depreciation and impairment | (2,497.1) | (52.6) | – | (311.2) | (2.7) | (104.6) | – | (2,968.2) |
| Net carrying amount | 18,329.1 | 344.5 | 3,423.0 | 364.2 | 1.4 | 207.0 | 2.5 | 22,671.7 |

At 31st December, 2018, the Group's property, plant and equipment with a net carrying amount of HK$22,514.6 million (2017 - HK$17,639.0 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 the 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 was categorised as a Level 2 measurement.

As at 31st December, 2018, certain aircraft with carrying amount of HK$58.3 million (2017 - HK$18.4 million) were transferred to aircraft held for sale in accordance with HKFRS 5.

In 2015, the Group entered into a development agreement ("Hotel Development Agreement") with the Urban Renewal Authority ("URA") for a hotel development project in Tai Kok Tsui, Kowloon, Hong Kong, in the form of a joint operation. The consideration for the acquisition of the development right and all relevant costs incurred under the Hotel Development Agreement are included in the Group's properties under construction. Pursuant to the terms of the Hotel Development Agreement, the Group will undertake the development and, after completion of the project, acquire URA's interest in the project at no further cost.

## 14. INVESTMENT PROPERTIES

| | **2018<br>HK$'million** | **2017<br>HK$'million** |
|---|---|---|
| Completed investment properties | **3,782.3** | 3,445.2 |

The movements of investment properties during the year are as follows:

| | **2018<br>HK$'million** | **2017<br>HK$'million** |
|---|---|---|
| Carrying amount at 1st January | **3,445.2** | 2,395.3 |
| Capital expenditure for the year | **16.7** | 318.9 |
| Transfer from owner-occupied properties | **–** | 125.8 |
| Transfer to owner-occupied properties | **–** | (66.0) |
| Transfer from properties held for sale | **134.5** | – |
| Disposals | **–** | (0.9) |
| Net gain from fair value adjustments | **191.7** | 671.2 |
| Exchange realignment | **(5.8)** | 0.9 |
| Carrying amount at 31st December | **3,782.3** | 3,445.2 |

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, Cushman & Wakefield Limited, Colliers International (Hong Kong) Limited and Colliers International Spain, four independent professionally qualified valuers, at HK$3,782.3 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 44(a) to the financial statements.

At 31st December, 2018, the Group's investment properties with a carrying value of HK$3,520.0 million (2017 - HK$3,318.0 million) were pledged to secure banking facilities granted to the Group.

Further particulars of the Group's investment properties are included on pages 196 to 198.

**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 | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'million | Significant observable inputs (Level 2) HK$'million | Significant unobservable inputs (Level 3) HK$'million | Total HK$'million |
| Residential properties | – | – | 864.0 | 864.0 |
| Commercial properties | – | – | 2,790.5 | 2,790.5 |
| Hotel properties | – | – | 127.2 | 127.2 |
| Industrial properties | – | – | 0.6 | 0.6 |
| | – | – | 3,782.3 | 3,782.3 |

| | Fair value measurement as at 31st December, 2017 using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'million | Significant observable inputs (Level 2) HK$'million | Significant unobservable inputs (Level 3) HK$'million | Total HK$'million |
| Residential properties | – | – | 864.0 | 864.0 |
| Commercial properties | – | – | 2,454.0 | 2,454.0 |
| Hotel properties | – | – | 126.7 | 126.7 |
| Industrial properties | – | – | 0.5 | 0.5 |
| | – | – | 3,445.2 | 3,445.2 |

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).

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

| | Residential properties HK$'million | Commercial properties HK$'million | Commercial properties under construction HK$'million | Hotel properties HK$'million | Industrial properties HK$'million |
|---|---|---|---|---|---|
| Carrying amount at 1st January, 2017 | 808.9 | 218.0 | 1,368.0 | – | 0.4 |
| Capital expenditure for the year | 4.1 | 1.6 | 313.2 | – | – |
| Transfer from owner-occupied properties | – | – | – | 125.8 | – |
| Transfer to owner-occupied properties | – | (66.0) | – | – | – |
| Disposals | (0.9) | – | – | – | – |
| Gain from fair value adjustments | 51.9 | 417.4 | 201.8 | – | 0.1 |
| Reclassification | – | 1,883.0 | (1,883.0) | – | – |
| Exchange realignment | – | – | – | 0.9 | – |
| Carrying amount at 31st December, 2017 and 1st January, 2018 | 864.0 | 2,454.0 | – | 126.7 | 0.5 |
| Capital expenditure for the year | – | 14.0 | – | 2.7 | – |
| Transfer from properties held for sale | – | 134.5 | – | – | – |
| Gain from fair value adjustments | – | 188.0 | – | 3.6 | 0.1 |
| Exchange realignment | – | – | – | (5.8) | – |
| Carrying amount at 31st December, 2018 | 864.0 | 2,790.5 | – | 127.2 | 0.6 |

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 | Range 2017 |
|---|---|---|---|---|
| Residential properties | Sales comparison approach | Estimated market price per square foot | HK$22,873 to HK$33,315 | HK$22,873 to HK$33,315 |
| Commercial properties | Discounted cash flow method | Capitalisation rate | 2.5% to 3.7% | 3% to 3.7% |
| | | Discount rate | 6% | 6.25% |
| | | Estimated rental value per square metre and per month | HK$352 to HK$721 | HK$327 to HK$727 |
| | Income capitalisation method | Capitalisation rate | 4.25% to 4.75% | N/A |
| | | Estimated rental value per square metre and per month | RMB73 to RMB116 | N/A |
| Hotel properties | Discounted cash flow method | Capitalisation rate | 8.5% | 8.5% |
| | | Discount rate | 11.25% | 10.25% |
| | | Estimated rental value per square metre and per month | EUR 5.91 to EUR 6.37 | EUR 5.27 to EUR 6.23 |
| Industrial properties | Sales comparison approach | Estimated market price per square foot | HK$149 | HK$116 |

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 the 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.

Under the income capitalisation method, the fair value is estimated based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sales transactions and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have been assessed with reference to recent lettings, within the subject properties and other comparable properties.

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, hotel and industrial properties. 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 | **9,270.2** | 7,758.5 |
| Effect of adoption of HKFRS 15 | **136.9** | – |
| Additions | **1,965.5** | 2,202.5 |
| Transfer to properties held for sale | **(7,312.5)** | (945.9) |
| Write-back of impairment* | **–** | 57.0 |
| Exchange realignment | **(85.0)** | 198.1 |
| Balance at 31st December | **3,975.1** | 9,270.2 |
| Portion included in current assets | **(1,747.4)** | (7,194.9) |
| Non-current portion | **2,227.7** | 2,075.3 |

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Properties under development included under current assets expected to be completed within normal operating cycle and recovered: | | |
| Within one year | **–** | 6,481.5 |
| After one year | **1,747.4** | 713.4 |
| | **1,747.4** | 7,194.9 |

* During the year ended 31st December, 2017, an impairment loss previously recognised of HK$57.0 million in respect of a hotel property under development located in Chengdu, the PRC was reversed due to the increase in the recoverable amount of the hotel property under development. As at 31st December, 2017, the recoverable amount of the hotel property under development was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management which have been prepared to reflect the development plan of the hotel property under development. The discount rate applied in the value in use calculation was 20.8%. The write-back of impairment of HK$57.0 million was recognised in the consolidated statement of profit or loss and included in the "property development and investment" segment.

In 2014, the Group entered into a development agreement ("Development Agreement") with the URA, for a development project in Sham Shui Po, Kowloon, Hong Kong, in the form of a joint operation. Under the Development Agreement, the Group was mainly responsible for the construction of the development project and the relevant costs incurred were included as part of the Group's properties under development. During the year, the relevant costs were transferred to properties held for sale upon completion of the development. Sales proceeds arising from the sale of the development projects will be distributed between URA and the Group pursuant to the terms of the Development Agreement.

At 31st December, 2017, the Group's properties under development with a carrying amount of HK$3,501.9 million were pledged to secure banking facilities granted to the Group.

## 16. INVESTMENTS IN ASSOCIATES

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Share of net liabilities | **(81.0)** | (78.6) |
| Amounts due from associates | **87.1** | 101.2 |
| | **6.1** | 22.6 |

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

Particulars of the Group's material 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 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| 8D Matrix Limited ("8D Matrix") | British Virgin Islands | HK$2,000,000 | 36.0 | 36.0 | Investment holding |
| 8D International Limited# | Hong Kong | HK$500,000 | 36.0 | 36.0 | Advertising and promotion |
| Century Innovative Technology Limited# | Hong Kong | HK$1 | 36.0 | 36.0 | 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 | 36.0 | Development and distribution of edutainment products |

* 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.

The percentages of equity interest above represent those attributable to RHIHL, including a 6% attributable interest held by RHIHL through 8D International (BVI) Limited, an associate in which RHIHL holds a 30% equity interest.

The above associates are indirectly held by the Company.

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 table illustrates the summarised financial information in respect of 8D Matrix and its subsidiaries adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| 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) |
| | **(216.2)** | (216.2) |
| Non-controlling interests | **(0.2)** | (0.2) |
| Net liabilities attributable to equity holders of the parent | **(216.4)** | (216.4) |
| 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 | **3.9** | 3.6 |
| 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 | **–** | (50.2) |

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' loss for the year and total comprehensive loss for the year | **(2.4)** | (11.4) |
| Aggregate carrying amount of the Group's investments in the associates | **2.2** | 19.0 |

## 17. AVAILABLE-FOR-SALE INVESTMENTS

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Unlisted equity investments, at fair value | – | 313.1 |
| Unlisted equity investments, at cost | – | 72.7 |
| | – | 385.8 |

During the year ended 31st December, 2017, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$31.6 million.

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

At 31st December, 2017, unlisted equity investments with a carrying amount of HK$72.7 million were stated at cost less impairment because the range of reasonable fair value estimates was so significant that the Directors were of the opinion that their fair values cannot be measured reliably. The Group did not intend to dispose of the investments in the near future.

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.

## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| **Non-current** | | |
| Unlisted equity investments, at fair value | **107.6** | – |
| Unlisted fund investments, at fair value | **524.8** | – |
| Structured deposit, at fair value | **–** | 1.9 |
| | **632.4** | 1.9 |
| **Current** | | |
| Listed equity investments, at fair value | **467.9** | 514.7 |
| Listed debt investments, at fair value | **1,557.4** | 1,101.6 |
| Structured deposit, at fair value | **1.9** | – |
| | **2,027.2** | 1,616.3 |

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.

## 19. 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 is 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.

## 20. 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<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| Balance at 1st January | **18.4** | – |
| Transfer from property, plant and equipment | **58.3** | 18.4 |
| Disposals | **(70.9)** | – |
| Exchange realignment | **0.1** | – |
| Balance at 31 December | **5.9** | 18.4 |

## 21. LOANS RECEIVABLE

| | 2018<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| **Non-current** | | |
| Mortgage loans | **133.1** | 111.9 |

| | 2018<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| **Current** | | |
| Short term secured loans | **170.8** | – |
| Mortgage loans | **6.2** | 4.5 |
| | **177.0** | 4.5 |

On 16th August, 2018, Cosmopolitan and its subsidiaries (the "Cosmopolitan Group") entered into a deposit agreement (the "Deposit Agreement") in relation to the possible investment by the Cosmopolitan Group in a sizeable logistics services provider that is principally operating logistics and express delivery services and the development and operation of logistics parks in the PRC. Pursuant to the Deposit Agreement, the Cosmopolitan Group paid a deposit of RMB70 million (HK$79.7 million) to the vendor and was granted an exclusivity period of 18 months to conduct bona fide negotiations to settle the terms of the possible investment. Following further negotiations with the vendor, the Cosmopolitan Group has agreed to increase the deposit under the Deposit Agreement from RMB70 million (HK$79.7 million) to RMB170 million (HK$193.6 million) and to grant loan facilities to the target investee company in an aggregate loan amount of RMB150 million (HK$170.8 million) which was fully utilised as at 31st December, 2018.

The short term secured loans bear interest at 18% to 24% per annum. The deposits and the loan amounts outstanding under the loan facilities are primarily secured by equity pledges over certain PRC companies associated with the vendor, guarantees provided by the vendor and certain of his associates, and pledges over the receivables of the target investee company and certain associates of the vendor.

The short term secured loans were overdue as at 31st December, 2018 and the negotiations with the vendor on the detailed terms of the proposed investment are still ongoing.

The long term mortgage loans represent loans granted to purchasers in connection with the sale of the Group's properties. The loans are secured by mortgages over the properties sold and are repayable by instalments in 5 to 25 years (2017 - 15 to 25 years). The long term mortgage loans bear interest at rates ranging from the Hong Kong dollar prime lending rate minus 2.75% to the Hong Kong dollar prime lending rate plus 2% per annum (2017 - Hong Kong dollar prime lending rate minus 2.75% to the Hong Kong dollar prime lending rate plus 2% per annum).

Impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31st December, 2018, the probability of default applied ranged from approximately 1% to 7% and no impairment allowance was provided in the event of default after taking into consideration of the value of collaterals. As at 31st December, 2018, the credit exposure of the balances was classified as stage 1.

## 22. FINANCE LEASE RECEIVABLES

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

| | Minimum lease payments | Present value of minimum lease payments |
|---|---|---|
| | **2017** | **2017** |
| | **HK$'million** | **HK$'million** |
| Finance lease receivables within one year | 39.0 | 37.1 |
| Less: Unearned finance income | (1.9) | |
| Total net finance lease receivables | 37.1 | |

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

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

## 23. GOODWILL

| | 2018<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| Cost and carrying amount at 1st January and 31st December | **261.0** | 261.0 |

No impairment was made on the goodwill as at 31st December, 2018 and 2017.

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the property development and investment cash-generating unit ("CGU") for impairment testing.

The recoverable amount of the property development and investment CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been prepared to reflect the development plan of the property development projects, comprising residential, commercial and hotel buildings. The discount rate applied to the cash flow projections is 24.2% (2017 - 20.8%).

Assumptions were used in the value in use calculation of the property development and investment CGU for the years ended 31st December, 2018 and 31st December, 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Discount rate* - Discount rate used is before tax and represents the current market assessment of the risks specific to the relevant CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings that the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factor. The beta factor is evaluated annually based on publicly available market data.

*Property price* - The basis used to determine the future selling price of the property development projects is with reference to recent market conditions and expected market development.

*Construction materials price inflation* - The basis used to determine the construction materials price inflation is the forecast price indices during the budget year for Mainland China from where the raw materials are sourced.

The values assigned to the key assumptions on market development of property development industry, discount rate, property price and construction materials price inflation are consistent with external information sources.

## 24. TRADEMARK

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Cost and carrying amount at 1st January and 31st December | **610.2** | 610.2 |

Impairment testing of trademark

Trademark is allocated to the hotel operation and management and hotel ownership CGU for impairment testing.

The recoverable amount of the hotel operation and management and hotel ownership CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The discount rates applied to the cash flow projections are 5.5% to 6.75% (2017 - 5.5% to 6.75%). The growth rates used to extrapolate the cash flows of the hotel operation and management and hotel ownership CGU are 2.7% to 7.3% (2017 - 2.6% to 40.7%).

Assumptions were used in the value in use calculation of the hotel operation and management and hotel ownership CGU for the years ended 31st December, 2018 and 31st December, 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of trademark:

*Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

*Discount rate* - Discount rate used is before tax and represents the current market assessment of the risks specific to the relevant CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its WACC. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings that the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factor. The beta factor is evaluated annually based on publicly available market data.

*Growth rates* - The growth rates used are with reference to the historical performance of the relevant hotels and the long term average growth rate for the hotel industry.

The values assigned to the key assumptions on market development of hotel industry, discount rates and growth rates are consistent with external information sources.

## 25. PROPERTIES HELD FOR SALE

At 31st December, 2018, the Group's properties held for sale with a carrying amount of HK$868.1 million (2017 - HK$1,009.1 million) were pledged to secure banking facilities granted to the Group.

## 26. INVENTORIES

| | 2018<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| Hotel and other merchandise | **27.9** | 28.9 |
| Work in progress | **36.6** | 36.4 |
| Finished goods | **0.1** | 0.2 |
| | **64.6** | 65.5 |

## 27. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in deposits and prepayments under non-current assets are the deposits in an aggregate amount of RMB170 million (HK$193.6 million) paid in relation to a possible investment by the Cosmopolitan Group in a sizeable logistics services provider that is principally operating logistics and express delivery services and the development and operation of logistics parks in the PRC, further details of which are disclosed in note 21 above.

Included in debtors, deposits and prepayments under current assets is an amount of HK$145.3 million (2017 - HK$147.4 million) representing the trade debtors of the Group.

| | 2018<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| Trade debtors | **150.0** | 149.2 |
| Impairment | **(4.7)** | (1.8) |
| | **145.3** | 147.4 |

### 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.

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 | **123.9** | 122.7 |
| 4 to 6 months | **3.7** | 3.5 |
| 7 to 12 months | **5.5** | 7.2 |
| Over 1 year | **16.9** | 15.8 |
| | **150.0** | 149.2 |
| Impairment | **(4.7)** | (1.8) |
| | **145.3** | 147.4 |

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 losses (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

| | | Past due | | | | |
|---|---|---|---|---|---|---|
| | **Current** | **Within 3 months** | **4 to 6 months** | **7 to 12 months** | **Over 1 year** | **Total** |
| Expected credit loss rate | – | – | 1.5% | 3.5% | 26.1% | 3.1% |
| Gross carrying amount (HK$'million) | 96.4 | 27.5 | 3.7 | 5.5 | 16.9 | 150.0 |
| Expected credit losses (HK$'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 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 | 96.6 |
| Less than 3 months past due | 26.2 |
| 4 to 6 months past due | 3.4 |
| 7 to 12 months past due | 7.1 |
| Over 1 year past due | 14.1 |
| | 147.4 |

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.

Included in the balance are amounts due from a fellow subsidiary and a related company of HK$1.2 million (2017 - HK$0.9 million) and HK$1.2 million (2017 - HK$1.2 million), respectively, which are unsecured, non-interest bearing and repayable on demand.

## 28. RESTRICTED CASH

At 31st December, 2018, the Group had cash of approximately HK$81.4 million (2017 - HK$145.6 million) 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, deposits of certain tenants in respect of certain investment properties and guarantee deposits for the construction costs of certain pre-sold properties.

## 29. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK$78.5 million (2017 - HK$87.0 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<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| Outstanding balances with ages: | | |
| Within 3 months | **78.2** | 86.8 |
| 4 to 6 months | **0.2** | 0.1 |
| 7 to 12 months | **0.1** | 0.1 |
| | **78.5** | 87.0 |

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

Included in the balance under current liabilities are amounts due to fellow subsidiaries and an associate of HK$11.6 million (2017 - HK$3.9 million) and HK$1.5 million (2017 - HK$1.2 million), respectively, which are unsecured, non-interest bearing and repayable on demand.

## 30. CONSTRUCTION CONTRACTS

| | 2018<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| Gross amount due to contract customers included in creditors and accruals | **–** | (8.6) |
| Contract costs incurred plus recognised profits less recognised losses to date | **–** | 1,499.1 |
| Less: Progress billings | **–** | (1,507.7) |
| | **–** | (8.6) |

## 31. CONTRACT LIABILITIES

| | 31st December, 2018 HK$'million | 1st January, 2018 HK$'million |
|---|---|---|
| Contract liabilities arising from: | | |
| Sales of properties | **284.1** | 2,659.8 |
| Construction services | **10.1** | 8.6 |
| Hotel operations | **42.6** | 52.4 |
| | **336.8** | 2,720.8 |

Contract liabilities include (i) sales proceeds received in advance from buyers in connection with the Group's sale and pre-sale of properties and interest on the sales proceeds received; (ii) consideration received from customers in advance for construction and hotel operations and; (iii) deferred income arising from 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. The decrease in contract liabilities during the year was mainly due to the decrease in the sales proceeds received in advance from buyers as the properties are delivered to the buyers and the related sales proceeds are recognised as revenue.

At 31st December, 2017, sales receipts in advance from buyers in connection with sale and pre-sale of properties amounted to HK$2,522.9 million was included in deposits received under current liabilities.

## 32. INTEREST BEARING BANK BORROWINGS

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Maturity | HK$'million | Maturity | HK$'million |
| **Current** | | | | |
| Bank loans – secured | **2019** | **4,131.2** | 2018 | 4,251.6 |
| **Non-current** | | | | |
| Bank loans – secured | **2020 - 2023** | **12,712.2** | 2019 - 2021 | 9,142.0 |
| | | **16,843.4** | | 13,393.6 |

| | 2018 | 2017 |
|---|---|---|
| | HK$'million | HK$'million |
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year | **4,131.2** | 4,251.6 |
| In the second year | **1,432.6** | 1,736.7 |
| In the third to fifth years, inclusive | **11,279.6** | 7,405.3 |
| | **16,843.4** | 13,393.6 |

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 un-utilised.

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 of 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 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 Rates ("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 1.50% per annum except for a bank loan of HK$21.0 million, which bore interest at the London Inter Bank Offered Rate ("LIBOR") 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 bank loans of HK$21.6 million which were denominated in Euro.

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 1.50% per annum except for bank loans of HK$72.2 million which bore interest at the LIBOR 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 42 to the consolidated financial statements.

## 33. OTHER BORROWINGS

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| **Current** | | |
| Other borrowings - unsecured | – | 1,945.8 |
| **Non-current** | | |
| Other borrowings - unsecured | **2,725.9** | 2,713.7 |
| | **2,725.9** | 4,659.5 |

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Analysed into: | | |
| Other borrowings repayable: | | |
| Within one year | – | 1,945.8 |
| In the third to fifth years, inclusive | **2,725.9** | 2,713.7 |
| | **2,725.9** | 4,659.5 |

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

## 34. DERIVATIVE FINANCIAL INSTRUMENTS

| | ASSETS | |
|---|---|---|
| | 2018 HK$'million | 2017 HK$'million |
| Put options | **28.4** | – |

| | LIABILITIES | |
|---|---|---|
| | 2018 HK$'million | 2017 HK$'million |
| Foreign currency forward contracts | **1.0** | 3.0 |

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).

## 35. DEFERRED TAX

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

| | 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$'million | Fair value adjustments arising from acquisition/ disposal of a business/ subsidiaries HK$'million | Fair value adjustments arising from revaluation of property, plant and equipment HK$'million | Total HK$'million |
|---|---|---|---|---|---|---|
| Gross deferred tax assets/(liabilities) at 1st January, 2017 | (946.0) | 1.9 | 95.7 | (1,227.5) | – | (2,075.9) |
| Disposal of subsidiaries (note 40(c)) | – | – | – | 24.3 | – | 24.3 |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10) | 26.7 | (0.1) | (31.0) | 63.8 | – | 59.4 |
| Deferred tax charged to other comprehensive income during the year | – | – | – | – | (2.5) | (2.5) |
| Exchange differences | – | – | – | (1.9) | (0.2) | (2.1) |
| Gross deferred tax assets/(liabilities) at 31st December, 2017 and at 1st January, 2018 | (919.3) | 1.8 | 64.7 | (1,141.3) | (2.7) | (1,996.8) |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10) | 40.9 | (0.2) | (12.0) | 36.9 | – | 65.6 |
| Exchange differences | – | – | – | 0.8 | 0.1 | 0.9 |
| Gross deferred tax assets/(liabilities) at 31st December, 2018 | (878.4) | 1.6 | 52.7 | (1,103.6) | (2.6) | (1,930.3) |

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<br>HK$'million | 2017<br>HK$'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 | **(1,973.2)** | (2,048.5) |
| | **(1,930.3)** | (1,996.8) |

The Group has unrecognised tax losses arising in Hong Kong and the United States of America amounting to HK$4,170.3 million (2017 - HK$3,928.8 million) and HK$206.2 million (2017 - HK$206.2 million), respectively, as at 31st December, 2018. The tax losses arising in Hong Kong, subject to the agreement by the Hong Kong Inland Revenue Department, are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, whilst those arising in the United States of America are available for a maximum period of twenty years. Deferred tax assets in respect of the above tax losses amounting to HK$760.3 million (2017 - HK$720.4 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 established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$653.4 million at 31st December, 2018 (2017 - HK$200.0 million).

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

## 36. SHARE CAPITAL AND SHARE PREMIUM

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| **Shares** | | |
| Authorised: | | |
| 2,000.0 million ordinary shares of HK$0.10 each | **200.0** | 200.0 |
| 4,750.0 million non-voting convertible preference shares of HK$0.10 each | **475.0** | 475.0 |
| | **675.0** | 675.0 |
| Issued and fully paid: | | |
| 1,114.6 million ordinary shares of HK$0.10 each | **111.4** | 111.4 |
| **Share premium** | | |
| Ordinary shares | **1,356.1** | 1,356.1 |

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, 31st December, 2017, 1st January, 2018 and 31st December, 2018 | 2,000.0 | 200.0 | 1,114.6 | 111.4 | 1,356.1 |
| **Non-voting convertible preference shares of HK$0.10 each** | | | | | |
| At 1st January, 2017, 31st December, 2017, 1st January, 2018 and 31st December, 2018 | 4,750.0 | 475.0 | – | – | – |
| **Total share capital** | | | | | |
| At 31st December, 2018 | | **675.0** | | **111.4** | **1,356.1** |
| At 31st December, 2017 | | 675.0 | | 111.4 | 1,356.1 |

## 37. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 56 and 57.

*Special reserve*

The Group's special reserve represents reserve arising from the Company's capital reorganisation in 2002.

## 38. PERPETUAL SECURITIES

On 13th April, 2017, RH International Finance Limited, a wholly owned subsidiary of RHIHL, 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 RHIHL. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the issuer of the perpetual securities.

## 39. 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 RHIHL | **31.6%** | 31.6% |

| | 2018<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| Profit for the year allocated to non-controlling interests of the RHIHL Group | **76.6** | 192.6 |
| Dividends paid to non-controlling interests of the RHIHL Group | **165.5** | 166.2 |
| Accumulated balances of non-controlling interests of the RHIHL Group at the reporting date | **5,891.4** | 6,045.6 |

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

| | 2018<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| Revenue | **2,614.1** | 2,560.6 |
| Profit for the year | **201.2** | 569.8 |
| Total comprehensive income for the year | **139.4** | 700.2 |
| Non-current assets | **30,051.3** | 29,318.0 |
| Current assets | **5,577.8** | 6,207.8 |
| Current liabilities | **(1,669.8)** | (3,811.0) |
| Non-current liabilities | **(15,380.5)** | (12,876.3) |
| Net cash flows from/(used in) operating activities | **217.6** | (319.1) |
| Net cash flows used in investing activities | **(867.7)** | (2,528.7) |
| Net cash flows from/(used in) financing activities | **(400.9)** | 1,935.6 |
| Net decrease in cash and cash equivalents | **(1,051.0)** | (912.2) |

## 40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash and cash equivalent balances

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Cash and bank balances | **1,554.0** | 2,224.7 |
| Non-pledged time deposits with an original maturity of less than three months when acquired | **1,049.3** | 1,896.5 |
| Non-pledged time deposit with an original maturity of more than three months when acquired | **10.0** | – |
| Cash and cash equivalents | **2,613.3** | 4,121.2 |

At the end of the reporting period, the cash and cash equivalent balances of the Group amounting to HK$725.1 million (2017 - HK$1,082.5 million) were held by certain subsidiaries operating in Mainland China where exchange controls apply.

(b) Changes in liabilities arising from financing activities

**2018**

| | Interest bearing bank borrowings HK$'million | Other borrowings HK$'million | Interest payable on bank borrowings and other borrowings HK$'million |
|---|---|---|---|
| At 1st January, 2018 | 13,393.6 | 4,659.5 | 60.5 |
| Changes from financing cash flows | 3,410.9 | (1,952.3) | (533.9) |
| Foreign exchange movement | (0.8) | 11.9 | (5.2) |
| Finance costs | 39.7 | 6.8 | 555.5 |
| At 31st December, 2018 | 16,843.4 | 2,725.9 | 76.9 |

**2017**

| | Interest bearing bank borrowings HK$'million | Other borrowings HK$'million | Interest payable on bank borrowings and other borrowings HK$'million |
|---|---|---|---|
| At 1st January, 2017 | 9,553.2 | 6,879.8 | 75.1 |
| Changes from financing cash flows | 3,801.6 | (2,277.8) | (486.8) |
| Foreign exchange movement | 6.2 | 42.9 | (8.5) |
| Finance costs | 32.6 | 14.6 | 480.7 |
| At 31st December, 2017 | 13,393.6 | 4,659.5 | 60.5 |

(c) Disposal of subsidiaries

Pursuant to a deed of arrangement entered into between the Cosmopolitan Group and the co-venturer, the Cosmopolitan Group completed the disposal of its 60% effective equity interest in the SH Logistics Group at a total consideration of HK$71.0 million. The Cosmopolitan Group ceased to engage in the provision of logistics and related services in Shanghai, the PRC with effect from 30th June, 2017.

| | Notes | HK$'million |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment | 13 | 4.3 |
| Other intangible assets | | 90.8 |
| Cash and bank balances | | 5.3 |
| Embedded derivative included in convertible bonds | | 11.9 |
| Other net assets | | 4.1 |
| Deferred tax liabilities | 35 | (24.3) |
| Non-controlling interests | | (31.0) |
| | | 61.1 |
| Exchange equalisation reserve released | | 1.6 |
| Gain on disposal of subsidiaries | | 0.2 |
| | | 62.9 |

| | HK$'million |
|---|---|
| Satisfied by: | |
| Cash | 71.0 |
| Contingent consideration receivable | (8.1) |
| | 62.9 |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the SH Logistics Group is as follows:

| | HK$'million |
|---|---|
| Cash consideration | 71.0 |
| Cash and bank balances disposed of | (5.3) |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | 65.7 |

(d) 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 |
| Loan to a joint venture derecognised upon acquisition of 50% interest in the iclub Ma Tau Wai Hotel | – | 1,000 |

## 41. 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 |
|---|---|---|---|
| A wholly owned subsidiary of CCIHL: | | | |
| Management fees | (i) | **79.6** | 66.7 |
| An associate: | | | |
| Advertising and promotion fees (including cost reimbursements) | (ii) | **9.0** | 7.7 |

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, RHIHL, 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 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 RHIHL Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed.

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 associates | (i) | **87.1** | 101.2 |
| Due from a fellow subsidiary | (ii) | **1.2** | 0.9 |
| Due from a related company | (ii) | **1.2** | 1.2 |
| Due to fellow subsidiaries | (iii) | **(11.6)** | (3.9) |
| Due to an associate | (iii) | **(1.5)** | (1.2) |

Notes:

(i) The balance is included in "Investments in associates" in note 16 to the financial statements.

(ii) The amounts are included in "Debtors, deposits and prepayments" in note 27 to the financial statements.

(iii) The amounts are included in "Creditors and accruals" in note 29 to the financial statements.

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

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Short term employee benefits | **50.5** | 48.1 |
| Staff retirement scheme contributions | **3.0** | 2.8 |
| Total compensation paid to key management personnel | **53.5** | 50.9 |

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

The related party transaction set out in note 41(a)(i) above also constituted a continuing connected transaction as defined in Chapter 14A of the Listing Rules to the Company, but was/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.

The related party transaction set out in note 41(a)(ii) above also constituted a continuing connected transaction to the Company, but was/is exempted from the Relevant Requirements pursuant to rule 14A.76(1)(a) of the Listing Rules.

## 42. PLEDGE OF ASSETS

As at 31st December, 2018, certain of the Group's property, plant and equipment, investment properties, properties held for sale, 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$28,697.5 million were pledged to secure general 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. In addition, as at 31st December, 2018, certain ordinary shares in a listed subsidiary with a market value of HK$457.2 million were also pledged to secure general banking facilities granted to the Group.

As at 31st December, 2017, certain of the Group's property, plant and equipment, investment properties, properties held for sale, properties under development, 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$27,144.0 million were pledged to secure general 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. In addition, as at 31st December, 2017, certain ordinary shares in a listed subsidiary with a market value of HK$536.8 million were also pledged to secure general banking facilities granted to the Group.

## 43. CONTINGENT LIABILITIES

A subsidiary of the Cosmopolitan Group was a defendant in certain litigation claims in an aggregate amount of approximately RMB8.2 million (HK$9.9 million) relating to the re-forestation project located in Xinjiang in the PRC as at 31st December, 2017. During the year, the Cosmopolitan Group successfully defended against the allegations and, accordingly, there was no liability incurred in respect of the claims.

Subsequent to the reporting date, a subsidiary of the Cosmopolitan Group received claims for compensation from certain purchasers of the residential units of the Cosmopolitan Group's property development project in Tianjin in relation to the alleged delay in handing over the completed units. The total amount of the claims amounted to approximately RMB2.1 million (HK$2.4 million) and the arbitration proceeding has recently commenced. Based on legal opinion obtained, the management considered there is reasonably good ground to defend against the allegations and, accordingly, no provision has been made in the financial statements.

In addition, at the end of the reporting period, the Cosmopolitan Group had provided guarantees to banks in connection with mortgage facilities granted to certain purchasers of its properties amounting to approximately RMB316.3 million (HK$360.1 million) (2017 - RMB356.0 million (HK$427.0 million)). The Cosmopolitan Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates and the completion of the proper procedures to register the mortgages under the names of the relevant purchasers, which will generally complete within one to two years after the purchasers take possession of the relevant properties.

No provision has been made in the consolidated financial statements for the guarantees in connection with the mortgage facilities as management is of the view that the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interests and penalties in case of any default in payments.

## 44. 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 7 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 8 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.

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**<br>**HK$'million** | 2017<br>HK$'million |
|---|---|---|
| Within one year | **162.1** | 87.7 |
| In the second to fifth years, inclusive | **206.8** | 152.8 |
| After five years | **5.4** | 9.6 |
| | **374.3** | 250.1 |

(b) As lessee

The Group leases certain office, warehouse premises 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<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| Land and buildings: | | |
| Within one year | **15.7** | 15.1 |
| In the second to fifth years, inclusive | **14.8** | 7.9 |
| | **30.5** | 23.0 |
| Other equipment: | | |
| Within one year | **0.5** | 0.5 |
| In the second to fifth years, inclusive | **0.4** | 0.7 |
| | **0.9** | 1.2 |
| | **31.4** | 24.2 |

## 45. COMMITMENTS

In addition to the operating lease commitments detailed in note 44(b) above, the Group had the following capital commitments at the end of the reporting period:

| | 2018<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| Contracted, but not provided for: | | |
| Property development projects | **1,961.9** | 1,830.4 |

## 46. 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**

| | Financial assets at fair value through profit or loss | | | |
|---|---|---|---|---|
| | - designated as such upon initial recognition HK$'million | - held for trading HK$'million | Financial assets at amortised cost HK$'million | Total HK$'million |
| Financial assets at fair value through profit or loss (note 18) | 634.3 | 2,025.3 | – | 2,659.6 |
| Financial assets at amortised cost | – | – | 481.3 | 481.3 |
| Derivative financial instruments | – | 28.4 | – | 28.4 |
| Loans receivable (note 21) | – | – | 310.1 | 310.1 |
| Trade debtors (note 27) | – | – | 145.3 | 145.3 |
| Other financial assets included in debtors, deposits and prepayments | – | – | 449.3 | 449.3 |
| Restricted cash | – | – | 81.4 | 81.4 |
| Pledged time deposits and bank balances | – | – | 24.0 | 24.0 |
| Time deposits | – | – | 1,059.3 | 1,059.3 |
| Cash and bank balances | – | – | 1,554.0 | 1,554.0 |
| | 634.3 | 2,053.7 | 4,104.7 | 6,792.7 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss - held for trading HK$'million | Financial liabilities at amortised cost HK$'million | Total HK$'million |
|---|---|---|---|
| Trade creditors (note 29) | – | 78.5 | 78.5 |
| Other financial liabilities included in creditors and accruals | – | 1,042.4 | 1,042.4 |
| Deposits received | – | 58.8 | 58.8 |
| Derivative financial instruments (note 34) | 1.0 | – | 1.0 |
| Interest bearing bank borrowings (note 32) | – | 16,843.4 | 16,843.4 |
| Other borrowings (note 33) | – | 2,725.9 | 2,725.9 |
| | 1.0 | 20,749.0 | 20,750.0 |

**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 |
| Available-for-sale investments (note 17) | – | – | 385.8 | – | – | 385.8 |
| Financial assets at fair value through profit or loss (note 18) | 1.9 | 1,616.3 | – | – | – | 1,618.2 |
| Held-to-maturity investments | – | – | – | – | 167.9 | 167.9 |
| Loans receivable (note 21) | – | – | – | 116.4 | – | 116.4 |
| Finance lease receivables (note 22) | – | – | – | 37.1 | – | 37.1 |
| Trade debtors (note 27) | – | – | – | 147.4 | – | 147.4 |
| Other financial assets included in debtors, deposits and prepayments | – | – | – | 244.3 | – | 244.3 |
| Restricted cash | – | – | – | 145.6 | – | 145.6 |
| Pledged time deposits and bank balances | – | – | – | 550.4 | – | 550.4 |
| Time deposits | – | – | – | 1,896.5 | – | 1,896.5 |
| Cash and bank balances | – | – | – | 2,224.7 | – | 2,224.7 |
| | 1.9 | 1,616.3 | 385.8 | 5,362.4 | 167.9 | 7,534.3 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss - held for trading HK$'million | Financial liabilities at amortised cost HK$'million | Total HK$'million |
|---|---|---|---|
| Trade creditors (note 29) | – | 87.0 | 87.0 |
| Other financial liabilities included in creditors and accruals | – | 859.0 | 859.0 |
| Deposits received | – | 69.9 | 69.9 |
| Derivative financial instruments (note 34) | 3.0 | – | 3.0 |
| Interest bearing bank borrowings (note 32) | – | 13,393.6 | 13,393.6 |
| Other borrowings (note 33) | – | 4,659.5 | 4,659.5 |
| | 3.0 | 19,069.0 | 19,072.0 |

## 47. 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.

**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 | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'million | Significant observable inputs (Level 2) HK$'million | Significant unobservable inputs (Level 3) HK$'million | Total HK$'million |
| Financial assets at fair value through profit or loss: | | | | |
| Listed equity investments | 452.8 | 15.1 | – | 467.9 |
| Listed debt investments | – | 1,557.4 | – | 1,557.4 |
| Unlisted equity investments | – | – | 107.6 | 107.6 |
| Unlisted fund investments | – | – | 524.8 | 524.8 |
| Structured deposit | – | 1.9 | – | 1.9 |
| Derivative financial instruments | – | 28.4 | – | 28.4 |
| | 452.8 | 1,602.8 | 632.4 | 2,688.0 |

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

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'million | Significant observable inputs (Level 2) HK$'million | Significant unobservable inputs (Level 3) HK$'million | Total HK$'million |
| Available-for-sale investments: | | | | |
| Unlisted equity investments | – | – | 313.1 | 313.1 |
| Financial assets at fair value through profit or loss: | | | | |
| Listed equity investments | 498.4 | 16.3 | – | 514.7 |
| Listed debt investments | – | 1,101.6 | – | 1,101.6 |
| Structured deposit | – | 1.9 | – | 1.9 |
| | 498.4 | 1,119.8 | 313.1 | 1,931.3 |

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

| | 2018 HK$'million | 2017 HK$'million |
|---|---|---|
| Available-for-sale investments – unlisted: | | |
| At 1st January | **313.1** | 253.1 |
| Effect of adoption of HKFRS 9 | **(313.1)** | – |
| At 1st January (restated) | **–** | 253.1 |
| Purchases | **–** | 30.6 |
| Distributions | **–** | (2.2) |
| Total gains recognised in other comprehensive income | **–** | 31.6 |
| At 31st December | **–** | 313.1 |

| | 2018 HK$'million |
|---|---|
| Financial assets at fair value through profit or loss – unlisted investments: | |
| At 1st January | **–** |
| Effect of adoption of HKFRS 9 (note 2.2) | **385.8** |
| At 1st January (restated) | **385.8** |
| Purchases | **283.7** |
| Distributions | **(27.3)** |
| Total losses recognised in profit or loss | **(9.8)** |
| At 31st December | **632.4** |

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

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

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

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1) HK$'million** | **Significant observable inputs (Level 2) HK$'million** | **Significant unobservable inputs (Level 3) HK$'million** | **Total HK$'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 market values provided by financial institutions.

The fair values of unlisted equity and unlisted fund investments are determined by reference to recent transaction price of the investments 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 discounted cash flow models or market values provided by financial institutions.

## 48. 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 finance 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, loans receivable, 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, foreign currency 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 32 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 rate.

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$129.9 million (2017 - HK$88.6 million) and increased the finance costs capitalised by HK$32.2 million (2017 - HK$41.4 million). A 10 basis point decrease in interest rates would have increased the Group's profit before tax for the current year by HK$13.0 million (2017 - HK$8.9 million) and decreased the finance costs capitalised by HK$3.2 million (2017 - HK$4.1 million).

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

### Foreign currency risk

The Group's operations are mainly in Hong Kong and Mainland China. Entities within the Group are exposed to foreign exchange risk from future commercial transactions and monetary assets and liabilities that are denominated in currencies that are not the entities' functional currencies.

The Group currently does not have a foreign currency hedging policy. It manages its foreign currency risk by closely monitoring the movement of the foreign currency rates and entering into foreign currency option and forward contracts to reduce the exposure should the need arises.

### Credit risk

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 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 | | | |
|---|---|---|---|---|---|
| | **Stage 1 HK$'million** | **Stage 2 HK$'million** | **Stage 3 HK$'million** | **Simplified approach HK$'million** | **Total HK$'million** |
| Loans receivable | | | | | |
| – Normal# | 310.1 | – | – | – | 310.1 |
| Financial assets at amortised cost | | | | | |
| – Normal# | 481.3 | – | – | – | 481.3 |
| Trade debtors* | – | – | – | 145.3 | 145.3 |
| Other financial assets included in debtors, deposits and prepayments | | | | | |
| – Normal# | 449.3 | – | – | – | 449.3 |
| Restricted cash | | | | | |
| – Not yet past due | 81.4 | – | – | – | 81.4 |
| Pledged time deposits and bank balances | | | | | |
| – Not yet past due | 24.0 | – | – | – | 24.0 |
| Time deposits | | | | | |
| – Not yet past due | 1,059.3 | – | – | – | 1,059.3 |
| Cash and bank balances | | | | | |
| – Not yet past due | 1,554.0 | – | – | – | 1,554.0 |
| Guarantees given to banks in connection with mortgage facilities provided to certain purchasers of the Group's properties | 360.1 | – | – | – | 360.1 |
| | 4,319.5 | – | – | 145.3 | 4,464.8 |

* For trade debtors to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 27 to the financial statements.

# The credit quality of the loans receivable, financial assets at amortised cost, and other financial assets included in debtors, deposits and prepayments is considered to be "normal" when they are not past due and there is no information indicating that the loans receivable, financial assets at amortised cost, and other 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 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, loans receivable, 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. The Group is also exposed to credit risk through the granting of guarantees to banks in connection with mortgage facilities for certain purchasers of the Group's properties, further details of which are disclosed in note 43 to the financial statements.

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.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade debtors are disclosed in note 27 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 |
| Trade creditors | 78.5 | – | 78.5 |
| Other financial liabilities included in creditors and accruals | 997.0 | 45.4 | 1,042.4 |
| Deposits received | 28.9 | 29.9 | 58.8 |
| Derivative financial instruments | 1.0 | – | 1.0 |
| Interest bearing bank borrowings | 4,668.2 | 13,673.9 | 18,342.1 |
| Other borrowings | 58.4 | 2,953.7 | 3,012.1 |
| Guarantees given to banks in connection with mortgage facilities provided to certain purchasers of the Group's properties | 360.1 | – | 360.1 |
| | 6,192.1 | 16,702.9 | 22,895.0 |

| | 2017 | | |
|---|---|---|---|
| | Within 1 year or on demand HK$'million | 1 to 5 years HK$'million | Total HK$'million |
| Trade creditors | 87.0 | – | 87.0 |
| Other financial liabilities included in creditors and accruals | 808.6 | 50.4 | 859.0 |
| Deposits received | 45.6 | 24.3 | 69.9 |
| Derivative financial instruments | 3.0 | – | 3.0 |
| Interest bearing bank borrowings | 4,597.4 | 9,607.0 | 14,204.4 |
| Other borrowings | 2,030.8 | 3,052.5 | 5,083.3 |
| Guarantees given to banks in connection with mortgage facilities provided to certain purchasers of the Group's properties | 427.0 | – | 427.0 |
| | 7,999.4 | 12,734.2 | 20,733.6 |

## 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 equity investments classified as financial assets at fair value through profit or loss (note 18) and unlisted equity investments classified as available-for-sale investments (note 17) at the end of the reporting period.

The following table demonstrates the sensitivity to a 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.

| | Carrying amount of equity investments HK$'million | Change in profit before tax HK$'million | Change in equity* HK$'million |
|---|---|---|---|
| **2018** | | | |
| Hong Kong listed investments: | | | |
| – Financial assets at fair value through profit or loss | **467.9** | **23.4** | **–** |
| Unlisted investments: | | | |
| – Financial assets at fair value through profit or loss | **107.6** | **5.4** | **–** |
| **2017** | | | |
| Hong Kong listed investments: | | | |
| – Held for trading | 514.7 | 25.7 | – |
| Unlisted investments: | | | |
| – Available-for-sale | 313.1 | – | 15.7 |

* 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 RHIHL 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 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.

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**<br>**HK$'million** | **2017**<br>**HK$'million** |
|---|---|---|
| Interest bearing bank borrowings and other borrowings | **19,569.3** | 18,053.1 |
| Less: Cash, bank balances and deposits | **(2,718.7)** | (4,817.2) |
| Net debt | **16,850.6** | 13,235.9 |
| Total assets | **44,907.6** | 45,632.4 |
| Net debt to total assets ratio | **37.5%** | 29.0% |

## 49. 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<br>HK$'million | 2017<br>HK$'million |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | **3,392.5** | 3,218.3 |
| CURRENT ASSETS | | |
| Deposits and prepayments | **1.0** | 0.9 |
| CURRENT LIABILITIES | | |
| Creditors and accruals | **(1.9)** | (2.4) |
| NET CURRENT LIABILITIES | **(0.9)** | (1.5) |
| Net assets | **3,391.6** | 3,216.8 |
| EQUITY | | |
| Issued capital | **111.4** | 111.4 |
| Reserves (note) | **3,280.2** | 3,105.4 |
| Total equity | **3,391.6** | 3,216.8 |

Note:

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

| | Share premium account HK$'million | Contributed surplus HK$'million | Capital redemption reserve HK$'million | Retained profits HK$'million | Total HK$'million |
|---|---|---|---|---|---|
| At 1st January, 2017 | 1,356.1 | 1,738.4 | 4.3 | 113.9 | 3,212.7 |
| Loss for the year | – | – | – | (4.7) | (4.7) |
| Final 2016 dividend declared | – | – | – | (74.7) | (74.7) |
| Interim 2017 dividend | – | – | – | (27.9) | (27.9) |
| At 31st December, 2017 and 1st January, 2018 | 1,356.1 | 1,738.4 | 4.3 | 6.6 | 3,105.4 |
| Profit for the year | – | – | – | 295.2 | 295.2 |
| Final 2017 dividend declared | – | – | – | (89.2) | (89.2) |
| Interim 2018 dividend | – | – | – | (31.2) | (31.2) |
| At 31st December, 2018 | 1,356.1 | 1,738.4 | 4.3 | 181.4 | 3,280.2 |

The contributed surplus represents reserves arising from (i) the group reorganisation in 1993 in preparation for a separate listing of the Company's shares, originally representing the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the then consolidated net asset value of the subsidiaries at the date of acquisition; and (ii) the Company's capital reorganisation in 2002.

Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders under certain circumstances.

## 50. 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

EY安永

**To the shareholders of Paliburg Holdings Limited**
(Incorporated in Bermuda with limited liability)

## Opinion

We have audited the consolidated financial statements of Paliburg Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 185, 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 ("HKSAs") 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.

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 | How our audit addressed the key audit matter |
|---|---|
| *Impairment assessment of goodwill and certain other non-financial assets* | |
| The Group holds several property development projects, hotel properties and aircraft in Hong Kong, Mainland China and overseas. As at 31st December, 2018, properties under development/construction and goodwill with an aggregate carrying amount of HK$8,229.4 million, hotel properties and trademark with an aggregate carrying amount of HK$18,466.2 million, and aircraft with a carrying amount of HK$405.7 million were allocated to the "property development and investment" cash-generating unit, the "hotel operation and management and hotel ownership" cash-generating unit and the "aircraft ownership and leasing" cash-generating unit, respectively.<br><br>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 of the relevant cash-generating units is dependent on a range of estimates, such as estimated selling prices and budgeted costs to complete the property development projects, estimated rental values, estimated room rates, estimated occupancy rates, estimated future cash flows, discount rates, capitalisation rates, and estimated economic useful lives and residual values of aircraft.<br><br>The Group's accounting policies and disclosures on impairment assessment of goodwill and certain other non-financial assets are included in notes 3, 13, 15, 23 and 24 to the consolidated financial statements. | We discussed the progress of property development projects with management, evaluated the progress by site visit and examination of surveyor's reports. We also discussed the business plans for hotel properties and aircraft with management. We involved our internal valuation specialists to assess the assumptions and estimates adopted in discounted cash flow projections or valuations performed by external valuers, such as estimated selling prices and budgeted costs to complete the property development projects, estimated rental values, estimated room rates, estimated occupancy rates, estimated future cash flows, discount rates, capitalisation rates, and estimated economic useful lives and residual values of aircraft. In addition, we have also assessed the independence, objectivity and competence of the external valuers. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Estimation of fair value of investment properties* | |
| The Group owns a portfolio of investment properties in Hong Kong, Mainland China and Spain measured at an aggregate fair value of HK$3,782.3 million as at 31st December, 2018.<br><br>The fair value estimation is significant to our audit due to (i) the significance of the carrying amount as at 31st December, 2018; and (ii) the inherently subjective valuation process involved, which is dependent on a number of estimates such as estimated selling prices and rental values of the properties, discount rates, capitalisation rates and interest rates.<br><br>The Group's accounting policies and disclosures on the valuation of investment properties are disclosed in notes 3 and 14 to the consolidated financial statements. | We involved internal valuation specialists to evaluate the valuation methodologies and assumptions, adopted by the external valuers, in the valuation of the investment properties. In addition, we benchmarked the fair values of investment properties to comparable market transactions. We have also assessed the independence, objectivity and competence of the external valuers. |

## 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.

## 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 Group 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 HKSAs 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 HKSAs, we exercise professional judgement and maintain professional scepticism 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.
- 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) | 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.)<br><br>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<br><br>(scheduled for completion in the second half of 2019) | 84.2 |
| (2) | 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.)<br><br>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<br><br>Certificate of compliance obtained in April 2016 | 84.2 |
| (3) | 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.)<br><br>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<br><br>Certificate of compliance obtained in February 2019 | 84.2 |

***As at 31st December, 2018***

| | Description | Use | Approx. area | Stage of completion (completion date of development project) | Percentage of interest attributable to the Company |
|---|---|---|---|---|---|
| (4) | The Ascent<br>No.83 Shun Ning Road,<br>Sham Shui Po,<br>Kowloon,<br>Hong Kong | Commercial/ residential | Site area - approx. 824.9 sq. m. (8,879 sq. ft.)<br><br>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<br><br>Certificate of compliance obtained in July 2018 | 84.2 |
| (5) | iclub Mong Kok Hotel<br>2 Anchor Street,<br>Tai Kok Tsui,<br>Kowloon,<br>Hong Kong | Hotel | Site area - approx. 725.5 sq. m. (7,809 sq. ft.)<br><br>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<br><br>Soft opened for business in March 2019 | 84.2 |
| (6) | Nos.291-293 (interests in 70% undivided shares) and Nos.301-303 (100% ownership interests)<br>Castle Peak Road,<br>Cheung Sha Wan,<br>Kowloon,<br>Hong Kong | Commercial/ residential | Site area - approx. 488 sq. m. (5,260 sq. ft.)<br><br>Gross floor area of the proposed new development - approx. 4,395 sq. m. (47,304 sq. ft.) | In planning stage | 84.2 |
| (7) | Nos.9-15 (100% ownership interests) and Nos.17-19 (interests in over 80% undivided shares)<br>Kam Wa Street,<br>Shau Kei Wan,<br>Hong Kong | Commercial/ residential | Site area - approx. 518 sq. m. (5,580 sq. ft.)<br><br>Gross floor area of the proposed new development - approx. 4,665 sq. m. (50,220 sq. ft.) | In planning stage | 84.2 |

***As at 31st December, 2018***

| | Description | Use | Approx. area | Stage of completion (completion date of development project) | Percentage of interest attributable to the Company |
|---|---|---|---|---|---|
| (8) | Certain apartment units and car and motorcycle parking spaces at Larvotto, 8 Praya Road, Ap Lei Chau, Hong Kong | Primarily residential | Site area for whole development - approx. 16,770 sq. m. (180,511 sq. ft.)<br><br>Gross floor area of 12 remaining apartment units held - approx. 1,460 sq. m. (15,715 sq. ft.) | Completed in March 2011 | 30.0 |
| (9) | 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.)<br><br>Gross area of 3 remaining houses held - approx. 1,433 sq. m. (15,420 sq. ft.) | Completed in March 2004 | 68.4 |
| (10) | 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.)<br><br>Gross floor area - approx. 33,700 sq. m. (362,750 sq. ft.) (1,208 guestrooms and suites) | Superstructure works in progress<br><br>(expected to be completed in late 2020) | 68.4 |
| (11) | Nos.150-162 Queen's Road West, Hong Kong | Commercial/ residential | Site area - approx. 682 sq. m. (7,342 sq. ft.)<br><br>Gross floor area - approx. 5,842 sq. m. (62,883 sq. ft.) | General building plans approved; demolition work of the existing buildings will soon commence<br><br>(expected to be completed by 2021) | 68.4 |

***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) | Fabrik<br>Rua Dos Fanqueiros 156,<br>Lisbon,<br>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<br><br>(renovation works expected to be completed in 2020) | 61.6 |
| (13) | Regal Cosmopolitan City at south of Xindu Main Road and both sides of Xingle Road,<br>Banqiao Village,<br>Xindu County,<br>Xindu District,<br>Chengdu,<br>Sichuan Province, PRC | Hotel/office and commercial complex/ residential | Site area for the whole development - approx. 111,869 sq. m. (1,204,148 sq. ft.)<br><br>Stages one and two<br>• a 298-room hotel<br>• remaining 37 residential units, 811 car parking spaces, and commercial accommodation (Total gross floor area - approx. 9,692 sq. m. (104,375 sq. ft.))<br><br>Stage three<br>• 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.)<br>• 10 residential towers having 1,555 units with total gross floor area of approx. 175,478 sq. m. (1,888,850 sq. ft.) | Stages one and two<br>• Construction works for 9 residential towers having 1,296 residential units completed in 2017<br>• Hotel portion scheduled to open in phases from first half of 2020<br><br>Stage three<br>• Updated scheme design of commercial and office accommodations approved and construction works planned to commence in late 2019 (expected to be completed in 2023)<br>• Construction works for 10 residential towers in steady progress (expected to be completed in 2021) | 69.0 |

***As at 31st December, 2018***

| | Description | Use | Approx. area | Stage of completion (completion date of development project) | Percentage of interest attributable to the Company |
|---|---|---|---|---|---|
| (14) | Regal Renaissance at the intersection between Weiguo Road and Xinkai Road, Hedong District, Tianjin, PRC | Commercial/ office/ residential | Site area for the whole development - approx. 31,700 sq. m. (341,000 sq. ft.)<br>• 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.)) | Residential towers, commercial complex and residential car parking spaces completed in 1st quarter of 2018<br>Superstructure works of two office towers expected to be resumed in 2nd quarter of 2019 | 69.0 |

***As at 31st December, 2018***

## PROPERTIES FOR INVESTMENT

| | Description | Use | Lease | Percentage of interest attributable to the Company |
|---|---|---|---|---|
| (1) | We Go MALL<br>No.16 Po Tai Street,<br>Ma On Shan,<br>Sha Tin,<br>New Territories,<br>Hong Kong | Commercial | Medium term | 84.2 |
| (2) | Certain commercial units of<br>Phases 1 and 2 of<br>Regal Renaissance,<br>Intersection of Xinkai Road and<br>Weiguo Road, Hedong District,<br>Tianjin, PRC | Commercial | Medium term | 69.0 |
| (3) | 11 luxury residential<br>houses at Regalia Bay,<br>88 Wong Ma Kok Road,<br>Stanley,<br>Hong Kong | Residential | Medium term | 68.4 |
| (4) | Campus La Mola<br>Cami dels Plans de Can Bonvilar s/n,<br>08227 - Terrassa,<br>Barcelona,<br>Spain | Hotel | Freehold land | 68.4 |
| (5) | Regal Airport Hotel<br>9 Cheong Tat Road,<br>Hong Kong International Airport,<br>Chek Lap Kok,<br>New Territories,<br>Hong Kong | Hotel | Medium term | 51.0 |
| (6) | Regal Hongkong Hotel<br>88 Yee Wo Street,<br>Causeway Bay,<br>Hong Kong | Hotel | Long term | 51.0 |

***As at 31st December, 2018***

| | Description | Use | Lease | Percentage of interest attributable to the Company |
|---|---|---|---|---|
| (7) | Regal Kowloon Hotel<br>71 Mody Road,<br>Tsimshatsui,<br>Kowloon,<br>Hong Kong | Hotel | Long term | 51.0 |
| (8) | Regal Oriental Hotel<br>30-38 Sa Po Road and<br>Shops 3-11 on G/F<br>including Cockloft of Shops 5-7<br>and the whole of 1/F,<br>Po Sing Court,<br>21-25 Shek Ku Lung Road,<br>40-42 Sa Po Road and<br>15-29 Carpenter Road,<br>Kowloon City,<br>Kowloon,<br>Hong Kong | Hotel | Medium term | 51.0 |
| (9) | Regal Riverside Hotel<br>34-36 Tai Chung Kiu Road,<br>Shatin, New Territories,<br>Hong Kong | Hotel | Medium term | 51.0 |
| (10) | iclub Wan Chai Hotel<br>Shops A, B and C on<br>G/F, Flat Roof on 3/F,<br>Whole of 5-12/F,<br>15-23/F and 25-29/F,<br>Eastern and Western<br>Elevations of External Walls,<br>Architectural Feature at<br>Roof Top and Upper Roof,<br>211 Johnston Road,<br>Wanchai,<br>Hong Kong | Hotel/<br>commercial | Long term | 51.0 |

***As at 31st December, 2018***

| | Description | Use | Lease | Percentage of interest attributable to the Company |
|---|---|---|---|---|
| (11) | iclub Fortress Hill Hotel<br>18 Merlin Street,<br>North Point,<br>Hong Kong | Hotel | Long term | 51.0 |
| (12) | iclub Sheung Wan Hotel<br>138 Bonham Strand,<br>Sheung Wan,<br>Hong Kong | Hotel | Long term | 51.0 |
| (13) | iclub Ma Tau Wai Hotel<br>8 Ha Heung Road,<br>To Kwa Wan,<br>Kowloon,<br>Hong Kong | Hotel | Long term | 51.0 |

# 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 | **5,894.3** | 3,588.6 | 2,771.8 | 2,900.0 | 2,301.2 |
| Operating profit | **1,010.4** | 1,145.6 | 559.8 | 292.2 | 647.9 |
| Finance costs | **(436.0)** | (309.4) | (310.1) | (229.4) | (236.0) |
| Share of profits and losses of associates | **(2.3)** | (26.6) | (10.2) | (18.6) | (15.5) |
| Profit before tax | **572.1** | 809.6 | 239.5 | 44.2 | 396.4 |
| Income tax | **(144.5)** | (91.5) | (4.1) | (16.1) | 18.7 |
| Profit for the year before allocation between equity holders of the parent and non-controlling interests | **427.6** | 718.1 | 235.4 | 28.1 | 415.1 |
| Attributable to: | | | | | |
| Equity holders of the parent | **321.0** | 528.5 | 217.0 | 21.5 | 283.7 |
| Non-controlling interests | **106.6** | 189.6 | 18.4 | 6.6 | 131.4 |
| | **427.6** | 718.1 | 235.4 | 28.1 | 415.1 |

## 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 | **22,969.3** | 22,671.7 | 19,429.0 | 19,993.3 | 19,687.6 |
| Investment properties | **3,782.3** | 3,445.2 | 2,395.3 | 2,101.3 | 1,946.6 |
| Properties under development | **2,227.7** | 2,075.3 | 1,293.0 | 1,297.3 | 1,305.1 |
| Investment in a joint venture | **–** | – | 1,150.7 | – | – |
| Investments in associates | **6.1** | 22.6 | 31.8 | 20.8 | 25.7 |
| Available-for-sale investments | **–** | 385.8 | 278.1 | 173.9 | 131.8 |
| Financial assets at fair value through profit or loss | **632.4** | 1.9 | 1.9 | 1.9 | 1.9 |
| Contingent consideration receivable | **–** | – | 10.3 | – | – |
| Loans receivable | **133.1** | 111.9 | 93.4 | 9.4 | 1.7 |
| Finance lease receivables | **–** | – | 36.8 | – | – |
| Deposits and prepayments | **401.0** | 92.0 | 73.7 | 78.4 | 87.2 |
| Deferred tax assets | **42.9** | 51.7 | 94.0 | 79.1 | 62.4 |
| Other asset | **–** | – | 5.0 | – | – |
| Goodwill | **261.0** | 261.0 | 261.0 | 261.0 | 261.0 |
| Trademark | **610.2** | 610.2 | 610.2 | 610.2 | 610.2 |
| Other intangible assets | **–** | – | 97.1 | – | – |
| Current assets | **13,841.6** | 15,903.1 | 15,653.7 | 12,667.1 | 12,820.9 |
| Total assets | **44,907.6** | 45,632.4 | 41,515.0 | 37,293.7 | 36,942.1 |
| Current liabilities | **(5,851.3)** | (9,950.7) | (6,503.2) | (2,598.0) | (2,193.0) |
| Creditors and deposits received | **(75.3)** | (74.7) | (114.5) | (147.0) | (27.8) |
| Interest bearing bank borrowings | **(12,712.2)** | (9,142.0) | (8,560.4) | (8,247.6) | (7,770.8) |
| Other borrowings | **(2,725.9)** | (2,713.7) | (4,621.3) | (4,218.7) | (4,211.2) |
| Convertible bonds | **–** | – | (31.1) | – | – |
| Deferred tax liabilities | **(1,973.2)** | (2,048.5) | (2,169.9) | (2,231.2) | (2,296.2) |
| Total liabilities | **(23,337.9)** | (23,929.6) | (22,000.4) | (17,442.5) | (16,499.0) |
| Perpetual Securities | **(1,732.9)** | (1,732.9) | – | – | – |
| Non-controlling interests | **(6,065.5)** | (6,208.9) | (6,401.1) | (6,821.2) | (7,380.6) |

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