富豪酒店國際控股有限公司
Regal Hotels International Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 78)

ANNOUNCEMENT OF 2018 GROUP FINAL RESULTS

FINANCIAL AND BUSINESS HIGHLIGHTS

	Year 2018	Year 2017	% Change
	HK$'M	HK$'M	
Revenue	**2,614.1**	2,560.6	**+2.1%**
Gross profit	**1,213.7**	1,167.0	**+4.0%**
Operating profit before depreciation, finance costs and tax	**1,327.4**	1,814.7	**-26.9%**
Profit for the year attributable to equity holders of the parent	**547.7**	982.1	**-44.2%**
Basic earnings per ordinary share attributable to equity holders of the parent	**HK$0.48**	HK$0.99	**-51.5%**
Proposed final dividend per ordinary share	**HK14.0 cents**	HK11.5 cents	**+21.7%**
Total dividends for the year per ordinary share	**HK19.0 cents**	HK16.0 cents	**+18.8%**

	As at 31st December,		
	2018	2017	
	(Unaudited)	(Unaudited)	
Net asset value per ordinary share attributable to equity holders of the parent			
Book	**HK$14.31**	HK$14.07	**+1.7%**
***Adjusted**	**HK$23.27**	HK$22.56	**+3.1%**

* compiled, for the purpose of reference, on an adjusted basis to restate the Group's hotel property portfolio in Hong Kong at its market value at 31st December, 2017 and 2018, respectively, with the relevant deferred tax liabilities added back

- **During the year under review, the business operations of the Group have performed satisfactorily. Gross profit from business operations for the year amounted to HK$1,213.7 million, which is 4% above 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.**

- **The decrease in the operating profit achieved was principally due to the fact that in 2017, there was an one-off income derived from the reimbursement of rental expenses with regards to the leasing by the Group of the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel for their initial 3-year terms and, as affected by the downturn of the debt and capital markets, particularly in the second half of the year, the profit contribution derived from the Group's financial assets investment business during the year was significantly below the level attained in 2017.**

- **Total depreciation charges on the Group's hotel portfolio in Hong Kong for the year amounted to HK$479.9 million (2017 – HK$463.2 million) which, although not affecting cash flow, have nevertheless impacted on the reported profits.**

- **Consolidated profit attributable to shareholders for the year amounted to HK$547.7 million (2017 – HK$982.1 million).**

- **Regal Real Estate Investment Trust, a listed subsidiary of the Group, owns a total of nine operating Regal and iclub Hotels in Hong Kong, with an aggregate of 4,909 guestrooms and suites. Except for the iclub Wan Chai Hotel which is self-operated by Regal REIT, the five initial Regal Hotels and the other 3 iclub Hotels are under lease to the Group for hotel operation.**

- **The five Regal Hotels have maintained steady operating performances during the year and achieved a year-on-year enhancement of 9.0% in Revenue per Available Room. Total net property income generated by these five hotels for the year amounted to HK$875.7 million, 8.5% above the HK$807.3 million in the preceding year.**

- **The business model of iclub Hotels has proved to be successful and the iclub Hotels are increasingly favoured by hotel guests. Apart from the iclub Ma Tau Wai Hotel which is still in its start-up period, all the other 3 iclub Hotels owned by Regal REIT have achieved satisfactory improvements in their business operations.**

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

- **Moreover, the Group has also undertaken on its own property development businesses, including certain existing properties situated at Queen's Road West, Hong Kong which are intended for a commercial/residential development.**

- **More recently, the Group has acquired a rehabilitation and renovation project for a historic building in Lisbon, Portugal which is intended for sale.**

- **The Group has disposed of over the past twelve months one Airbus A321-211 aircraft and eleven Embraer ERJ145 and ERJ135 aircraft (including 6 leased under finance leases), which overall contributed satisfactory returns. The Group presently owns a fleet of 3 aircraft which are all on operating leases. The Group still holds a reasonably positive view in the long-term growth of the aviation industry and will continue to review new acquisitions if they could offer attractive returns.**

- **P&R Holdings Limited (a 50% owned joint venture with Paliburg Holdings Limited) 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.**

- **The Mount Regalia luxury residential project in Kau To is the most significant development project so far undertaken by P&R Holdings. Upon the progressive disposals of the garden houses and apartment units in the project, substantial contributions of cash flow and development profits will be attributable to the Group.**

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

FINANCIAL RESULTS

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

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

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

Having regard to the material difference prevailing between the carrying values of the Group's hotel portfolio in Hong Kong, which are subject to accumulated depreciation charges, and their fair values as at 31st December, 2018, an Adjusted Net Asset Statement is presented in the section headed "Management Discussion and Analysis" in this announcement, which illustrated for the purpose of reference that, if all such hotel properties were to be stated in the Group's financial statements at their independent professional market valuations as at 31st December, 2018, the underlying adjusted net asset value of the Company would amount to HK$23.27 per share.

BUSINESS OVERVIEW

HOTELS

MARKET OVERVIEW

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

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

91.0%, an increase of 2.0 percentage points from 2017, while the industry-wide average room rate recorded a growth of 6.8%, resulting in a year-on-year increase of 9.2% in Revenue per Available Room (RevPAR).

HOTEL OWNERSHIP

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

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

REGAL REAL ESTATE INVESTMENT TRUST

As at 31st December, 2018, the Group held approximately 74.6% of the total outstanding issued units of Regal REIT, while Regal Portfolio Management Limited, a wholly owned subsidiary of the Group, acts as the REIT Manager.

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

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

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

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

HOTEL OPERATIONS

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

The five initial Regal Hotels have maintained steady operating performances during the year. Their combined average occupancy rate in 2018 was 88.7%, as compared to 87.4% last year, while their combined average room rate increased by 7.4%, resulting in a year-on-year enhancement of 9.0% in RevPAR, fairly in line with the industry average. Total hotel revenue from the five initial Regal Hotels in 2018 amounted to HK$2,037.4 million, as compared to

HK$1,967.0 million in 2017. The total net property income generated by these five hotels for the year amounted to HK$875.7 million, which was 8.5% above the HK$807.3 million in the preceding year. This represented an excess of HK$124.7 million over the aggregate annual base rent of HK$751.0 million for the year, 50% of which will be attributable to Regal REIT as variable rent under the market rental package. For the year 2019, the aggregate annual base rent was determined to be HK$776.0 million, representing an increment of HK$25.0 million over the aggregate base rent for 2018, with variable rent continuing to be based on 50% sharing of the excess of the aggregate net property income of the five initial Regal Hotels over the aggregate base rent.

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

The iclub Ma Tau Wai Hotel is the fourth iclub Hotel owned by Regal REIT, which it acquired from P&R Holdings Limited, a 50/50 joint venture owned by Paliburg Holdings Limited, the immediate holding company of the Company, and the Group, in September 2017.

This hotel has also been leased to the Group for a term of five years with escalating fixed rentals at an average yield of 4.5% per annum. Under the arrangement agreed with P&R Holdings, any deficit of the rental expenses below the net property income from the business operation of the hotel will be reimbursed by P&R Holdings to the Group annually during the initial 5-year term of the lease. Although still in start-up mode, the iclub Ma Tau Wai Hotel has managed to attain satisfactory performance during the year, with an average occupancy rate maintained at 84.4%.

HOTEL MANAGEMENT

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

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

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

PROPERTIES

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

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

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

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

AIRCRAFT OWNERSHIP AND LEASING

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

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

OUTLOOK

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

The performance of the Group's hotel, property and other investment businesses as well as that of Regal REIT during the year under review, the commentary on the hotel and property sectors and the changes in the general market conditions and the potential impact on their operating performances and future prospects are contained in the above sections headed "Financial Results", "Business Overview" and "Outlook" as well as in this sub-section.

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

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

Hong Kong

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

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

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

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

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

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

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

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

Overseas

Campus La Mola, Barcelona, Spain

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

Fabrik, Rua Dos Fanqueiros 156, Lisbon, Portugal

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

JOINT VENTURE – P&R HOLDINGS LIMITED

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

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

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

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 carparks. 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 carparking spaces, with aggregate gross floor area of approximately 32,474 square metres (349,547 square feet). The occupation permit was issued in September 2018 and the certificate of compliance in February 2019. The marketing and sale programme will commence shortly and is planned to be undertaken in stages.

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

This is a hotel development project also awarded by the Urban Renewal Authority of Hong Kong through a tender process in June 2015. The project has a site area of 725.5 square metres (7,809 square feet), with total permissible gross floor area of approximately 6,529 square metres (70,278 square feet) and covered floor area of approximately 9,355 square metres (100,697 square feet). The project has been developed into a hotel of 20 storeys, comprising 288 guestrooms with ancillary facilities. The occupation permit for the project was issued in October 2018 and the hotel soft opened for business after the issue of the hotel licence earlier in March 2019.

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

The project has an aggregate site area of approximately 345 square metres (3,710 square feet) and is being developed into a hotel with 98 guestrooms and suites (totally 162 room bays), with total gross floor area of approximately 5,236 square metres (56,360 square feet) and covered floor area of approximately 6,420 square metres (69,120 square feet). The superstructure works have substantially been finished and the project is scheduled for completion in the second half of 2019.

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

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

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

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

COSMOPOLITAN INTERNATIONAL HOLDINGS LIMITED

Cosmopolitan is a listed subsidiary of P&R Holdings. Further information relating to the property projects of the Cosmopolitan group in the People's Republic of China, 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.

FINANCIAL ASSETS AND OTHER INVESTMENTS

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

FINANCIAL REVIEW

ASSETS VALUE

The Group's hotel properties in Hong Kong are owned by Regal REIT and, with the exception of the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the iclub Ma Tau Wai Hotel, were stated in the financial statements at their fair values as at 23rd July, 2010 when Regal REIT became a subsidiary of the Group, plus subsequent capital additions and deducting accumulated depreciation. The market valuations of these hotel properties have since appreciated substantially but have not been reflected in the Group's financial statements. Moreover, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the iclub Ma Tau Wai Hotel were stated in the Group's financial statements at their fair values at the time of acquisition net of the unrealised gain attributable to the Group and are also subject to depreciation. For the purpose of providing supplementary information, if the Group's entire hotel property portfolio in Hong Kong is restated in the consolidated financial statements at market value as at 31st December, 2018, the unaudited adjusted net asset value of the ordinary shares of the Company would be HK$23.27 per share, computed as follows:

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

CAPITAL RESOURCES AND FUNDING

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. Cash balances are mostly placed on bank deposits, and treasury and yield enhancement products are deployed when circumstances are considered to be appropriate.

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

Cash Flows

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

Borrowings and Gearing

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

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

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

Details of the maturity profile of the borrowings of the Group as of 31st December, 2018 are shown in the consolidated financial statements ("Financial Statements") contained in the annual report of the Company for the year ended 31st December, 2018 (the "2018 Annual Report") to be published on or before 30th April, 2019.

Pledge of Assets

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

As at 31st December, 2017, certain of the Group's property, plant and equipment, investment properties, properties held for sale, available-for-sale investments, financial assets at fair value through profit or loss, held-to-maturity investments, time deposits and bank balances in the total amount of HK$17,839.9 million were pledged to secure banking facilities granted to the Group as well as bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT.

Capital Commitments

Details of the capital commitments of the Group as at 31st December, 2018 are shown in the Financial Statements.

Contingent Liabilities

As at 31st December, 2018, the Group had contingent liabilities not provided for in the financial statements for corporate guarantees provided in respect of attributable share of banking facilities granted to subsidiaries of a joint venture in the amount of HK$2,537.8 million (2017 – HK$2,446.8 million), of which HK$2,334.1 million (2017 – HK$1,841.0 million) was utilised.

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

DIVIDEND

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

Together with the interim dividend of HK5.0 cents (2017 – HK4.5 cents) per ordinary share paid in October 2018, total dividends per ordinary share for the year ended 31st December, 2018 will amount to HK19.0 cents (2017 – HK16.0 cents).

ANNUAL GENERAL MEETING

An Annual General Meeting of the Company will be convened to be held on Monday, 3rd June, 2019. The Notice of the Annual General Meeting will be published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company and sent to the shareholders of the Company, together with the Company's 2018 Annual Report, in due course.

CLOSURE OF REGISTER

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

(i) from Wednesday, 29th May, 2019 to Monday, 3rd June, 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2019 Annual General Meeting. In order to be entitled to attend and vote at the 2019 Annual General Meeting, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited (the "Branch Registrar"), no later than 4:30 p.m. on Tuesday, 28th May, 2019; and

(ii) from Monday, 10th June, 2019 to Wednesday, 12th June, 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Branch Registrar no later than 4:30 p.m. on Thursday, 6th June, 2019.

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

YEAR END RESULTS

Consolidated Statement of Profit or Loss

	Year ended 31st December, 2018 HK$'M	Year ended 31st December, 2017 HK$'M
REVENUE (Notes 2 & 3)	**2,614.1**	2,560.6
Cost of sales	**(1,400.4)**	(1,393.6)
Gross profit	**1,213.7**	1,167.0
Other income and gain, net (Note 3)	**311.7**	530.2
Fair value gains on financial assets at fair value through profit or loss, net	**75.5**	376.4
Fair value gains on investment properties, net	**5.6**	53.9
Impairment loss on items of property, plant and equipment	**–**	(50.5)
Property selling and marketing expenses	**–**	(5.2)
Administrative expenses	**(279.1)**	(257.1)
OPERATING PROFIT BEFORE DEPRECIATION	**1,327.4**	1,814.7
Depreciation	**(512.9)**	(503.5)
OPERATING PROFIT (Notes 2 & 4)	**814.5**	1,311.2
Finance costs (Note 5)	**(381.4)**	(368.6)
Share of profits and losses of:		
Joint ventures	**174.1**	146.4
Associates	**0.4**	(3.3)
PROFIT BEFORE TAX	**607.6**	1,085.7
Income tax (Note 6)	**(40.8)**	(87.4)
PROFIT FOR THE YEAR BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS	**566.8**	998.3

Consolidated Statement of Profit or Loss (Cont'd)

	Year ended 31st December, 2018 HK$'M	Year ended 31st December, 2017 HK$'M
Attributable to:		
Equity holders of the parent	**547.7**	982.1
Non-controlling interests	**19.1**	16.2
	566.8	998.3
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Note 8)		
Basic and diluted	**HK$0.48**	HK$0.99

Consolidated Statement of Comprehensive Income

	Year ended 31st December, 2018 HK$'M	Year ended 31st December, 2017 HK$'M
PROFIT FOR THE YEAR BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS	**566.8**	998.3
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Changes in fair value of available-for-sale investments	**–**	28.3
Exchange differences on translating foreign operations	**(15.9)**	27.4
Share of other comprehensive income/(loss) of:		
A joint venture	**(54.3)**	68.1
An associate	**(0.1)**	0.2
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**(70.3)**	124.0
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Gain on revaluation of property	**–**	10.6
Income tax effect	**–**	(2.5)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**–**	8.1
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(70.3)**	132.1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**496.5**	1,130.4
Attributable to:		
Equity holders of the parent	**477.4**	1,114.2
Non-controlling interests	**19.1**	16.2
	496.5	1,130.4

Consolidated Statement of Financial Position

	31st December, 2018	31st December, 2017
	HK$'M	**HK$'M**
NON-CURRENT ASSETS		
Property, plant and equipment	**18,529.9**	18,566.9
Investment properties	**1,147.2**	1,144.7
Properties under development	**897.9**	762.8
Investments in joint ventures	**3,539.9**	3,030.8
Investments in associates	**16.5**	15.8
Available-for-sale investments	**–**	294.1
Financial assets at fair value through profit or loss	**550.1**	1.9
Other loan	**1,062.0**	1,062.0
Debtors and deposits (Note 9)	**5.7**	10.5
Deferred tax assets	**42.9**	51.7
Total non-current assets	**25,792.1**	24,941.2
CURRENT ASSETS		
Properties held for sale	**223.1**	231.5
Inventories	**27.8**	28.9
Aircraft held for sale	**5.9**	18.4
Debtors, deposits and prepayments (Note 9)	**308.2**	263.4
Finance lease receivables	**–**	37.1
Held-to-maturity investments	**–**	167.9
Financial assets at amortised cost	**481.3**	–
Financial assets at fair value through profit or loss	**2,721.8**	2,030.5
Other loan	**267.3**	60.0
Derivative financial instruments	**28.4**	–
Tax recoverable	**7.2**	11.7
Restricted cash	**68.5**	67.7
Pledged time deposits and bank balances	**24.0**	550.4
Time deposits	**893.5**	1,681.4
Cash and bank balances	**888.8**	1,158.4
Total current assets	**5,945.8**	6,307.3

Consolidated Statement of Financial Position (Cont'd)

	31st December, 2018 HK$'M	31st December, 2017 HK$'M
CURRENT LIABILITIES		
Creditors, deposits received and accruals (Note 10)	**(425.8)**	(491.1)
Contract liabilities	**(42.6)**	–
Interest bearing bank borrowings	**(1,174.8)**	(1,347.5)
Other borrowings	**–**	(1,945.8)
Derivative financial instruments	**(1.0)**	(3.0)
Tax payable	**(25.6)**	(23.6)
Total current liabilities	**(1,669.8)**	(3,811.0)
NET CURRENT ASSETS	**4,276.0**	2,496.3
TOTAL ASSETS LESS CURRENT LIABILITIES	**30,068.1**	27,437.5
NON-CURRENT LIABILITIES		
Creditors and deposits received (Note 10)	**(97.0)**	(104.0)
Interest bearing bank borrowings	**(10,925.8)**	(8,376.1)
Other borrowings	**(2,725.9)**	(2,713.7)
Deferred tax liabilities	**(883.8)**	(921.4)
Total non-current liabilities	**(14,632.5)**	(12,115.2)
Net assets	**15,435.6**	15,322.3
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**89.9**	89.9
Reserves	**12,774.2**	12,557.0
	12,864.1	12,646.9
Perpetual securities	**1,732.9**	1,732.9
Non-controlling interests	**838.6**	942.5
Total equity	**15,435.6**	15,322.3

Notes:

1. Basis of Preparation and Accounting Policies

The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, 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. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest million except when otherwise indicated.

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

Amendments to HKFRS 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	Re-classification	ECL	HKFRS 9 measurement Amount	HKFRS 9 measurement Category
			HK$'M	HK$'M	HK$'M	HK$'M	
Financial assets							
Other loan		L&R[1]	1,122.0	-	-	1,122.0	AC[2]
Trade debtors	(i)	L&R[1]	140.3	-	-	140.3	AC[2]
Other financial assets included in debtors, deposit and prepayments		L&R[1]	114.6	-	-	114.6	AC[2]
Finance lease receivables		L&R[1]	37.1	-	-	37.1	AC[2]
Financial assets at fair value through profit or loss		FVPL[3]	2,032.4	294.1	-	2,326.5	FVPL[3]
From: Available-for-sale investments	(ii)			294.1	-		
Available-for-sale investments		AFS[4]	294.1	(294.1)	-	-	N/A
To: Financial assets at fair value through profit or loss	(ii)			(294.1)	-		
Held-to-maturity investments		HTM[5]	167.9	(167.9)	-	-	N/A
To: Financial assets at amortised cost	(iii)			(167.9)	-		
Financial assets at amortised cost		N/A	-	167.9	-	167.9	AC[2]
From: Held-to-maturity investments	(iii)			167.9	-		
Restricted cash		L&R[1]	67.7	-	-	67.7	AC[2]
Pledged time deposits and bank balances		L&R[1]	550.4	-	-	550.4	AC[2]
Time deposits		L&R[1]	1,681.4	-	-	1,681.4	AC[2]
Cash and bank balances		L&R[1]	1,158.4	-	-	1,158.4	AC[2]
			7,366.3	-	-	7,366.3	

	Notes	HKAS 39 measurement Category	Amount	Re-classification	ECL	HKFRS 9 measurement Amount	Category
			HK$'M	HK$'M	HK$'M	HK$'M	
Financial liabilities							
Trade creditors		AC[2]	76.1	-	-	76.1	AC[2]
Other financial liabilities included in creditors, deposits received and accruals		AC[2]	362.1	-	-	362.1	AC[2]
Amount due to a joint venture		AC[2]	22.8	-	-	22.8	AC[2]
Amount due to an associate		AC[2]	17.7	-	-	17.7	AC[2]
Derivative financial instruments		FVPL[3]	3.0			3.0	FVPL[3]
Interest bearing bank borrowings		AC[2]	9,723.6	-	-	9,723.6	AC[2]
Other borrowings		AC[2]	4,659.5	-	-	4,659.5	AC[2]
			14,864.8	-	-	14,864.8	

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

Notes:

(i) The gross carrying amount of the trade debtors under the column "HKAS 39 measurement – Amount" represents the amount after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs.

(ii) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets at fair value through profit or loss as these investments did not pass the contractual cash flow characteristics test in HKFRS 9.

(iii) The Group has classified its unlisted investments previously classified as held-to-maturity investments as financial assets at amortised cost as the Group intends to hold these assets to maturity to collect the contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Impairment

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

Impact on reserves and retained profits

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

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

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 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 are 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$'M
Liabilities		
Creditors, deposits received and accruals	(i), (ii)	(52.4)
Contract liabilities	(i), (ii)	52.4
Total		–

The adoption of HKFRS 15 has had no impact on the Group's operating, investing and financing cash flows.

The nature of the adjustments as at 1st January, 2018 is described below:

(i) Loyalty points programmes

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

(ii) Consideration received from customers in advance

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

2. Operating Segment Information

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

(a) the hotel operation and management and hotel ownership segment engages in hotel operations and the provision of hotel management services, and the ownership in hotel properties for rental income;

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

(c) the property development and investment segment includes investments in properties for sale and for rental income, and the provision of property agency and management services;

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about 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:

	Hotel operation and management and hotel ownership		**Asset management**		**Property development and investment**		**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**
Segment revenue (Note 3):																
Sales to external customers	2,377.9	2,274.3	-	-	28.7	122.7	71.5	103.6	119.1	39.7	16.9	20.3	-	-	2,614.1	2,560.6
Intersegment sales	7.1	8.2	114.1	119.9	4.9	4.9	-	-	-	-	103.1	76.2	(229.2)	(209.2)	-	-
Total	2,385.0	2,282.5	114.1	119.9	33.6	127.6	71.5	103.6	119.1	39.7	120.0	96.5	(229.2)	(209.2)	2,614.1	2,560.6
Segment results before depreciation	995.4	1,120.2	(13.1)	(13.3)	211.5	244.6	155.8	494.1	61.9	31.8	(2.6)	(1.7)	-	-	1,408.9	1,875.7
Depreciation	(484.6)	(470.3)	(0.4)	(0.4)	(5.8)	(6.0)	-	-	(18.2)	(22.4)	(3.9)	(4.4)	-	-	(512.9)	(503.5)
Segment operating results	510.8	649.9	(13.5)	(13.7)	205.7	238.6	155.8	494.1	43.7	9.4	(6.5)	(6.1)	-	-	896.0	1,372.2
Unallocated interest income and unallocated non-operating and corporate gains															30.0	34.0
Unallocated non-operating and corporate expenses, net															(111.5)	(95.0)
Operating profit															814.5	1,311.2
Finance costs															(381.4)	(368.6)
Share of profits and losses of:																
Joint ventures	-	-	-	-	174.1	146.4	-	-	-	-	-	-	-	-	174.1	146.4
Associates	-	-	-	-	0.3	15.0	-	-	-	-	0.1	(18.3)	-	-	0.4	(3.3)
Profit before tax															607.6	1,085.7
Income tax															(40.8)	(87.4)
Profit for the year before allocation between equity holders of the parent and non-controlling interests															566.8	998.3
Attributable to:																
Equity holders of the parent															547.7	982.1
Non-controlling interests															19.1	16.2
															566.8	998.3

	Hotel operation and management and hotel ownership		Asset management		Property development and investment		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
Segment assets	18,469.7	18,690.8	51.0	52.1	3,498.1	3,165.2	3,839.0	2,524.8	414.6	277.3	23.8	16.7	(51.3)	(50.5)	26,244.9	24,676.4
Investments in joint ventures	-	-	-	-	3,539.9	3,030.8	-	-	-	-	-	-	-	-	3,539.9	3,030.8
Investments in associates	-	-	-	-	10.5	10.2	-	-	-	-	6.0	5.6	-	-	16.5	15.8
Cash and unallocated assets															1,936.6	3,525.5
Total assets															31,737.9	31,248.5
Segment liabilities	(430.4)	(416.5)	(2.1)	(2.3)	(46.9)	(53.0)	(3.5)	(3.6)	(67.7)	(86.1)	(6.3)	(5.0)	51.3	50.5	(505.6)	(516.0)
Bank borrowings and unallocated liabilities															(15,796.7)	(15,410.2)
Total liabilities															(16,302.3)	(15,926.2)
Other segment information:																
Interest income	-	-	-	-	(197.6)	(109.7)	(110.0)	(54.6)	(1.9)	(4.8)	-	-				
Reimbursement of lease payments in connection with undertaking provided by a joint venture	(21.2)	(273.4)	-	-	-	-	-	-	-	-	-	-				
Impairment of trade debtors	2.6	0.1	-	-	-	-	-	-	-	-	0.3	-				
Impairment loss on items of property, plant and equipment	-	-	-	-	-	-	-	-	-	50.5	-	-				
Maintenance reserves released	-	-	-	-	-	-	-	-	(34.4)	(54.7)	-	-				
Fair value gains on financial assets at fair value through profit or loss, net	-	-	-	-	-	-	(75.5)	(376.4)	-	-	-	-				
Fair value gains on investment properties, net	(5.6)	(2.0)	-	-	-	(51.9)	-	-	-	-	-	-				
Loss/(gain) on disposal of items of property, plant and equipment, net	-	0.8	-	-	-	(35.7)	-	-	1.2	(5.2)	-	-				
Capital expenditure	173.9	3,692.2	-	0.3	0.1	4.2	-	-	282.1	145.4	2.8	3.2				

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about major customer

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

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

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

Other income and gain, net		
Bank interest income	**28.4**	31.6
Other interest income	**207.7**	123.0
Gain/(loss) on disposal of items of property, plant and equipment, net	**(1.2)**	40.1
Maintenance reserves released	**34.4**	54.7
Reimbursement of lease payments in connection with undertaking provided by a joint venture	**21.2**	273.4
Others	**21.2**	7.4
	311.7	530.2

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

	2018	**2017**
	HK$'M	**HK$'M**
Profit on disposal of properties	**–**	84.3

5. Finance costs of the Group are as follows:

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

6. The income tax charge for the year arose as follows:

	2018	2017
	HK$'M	**HK$'M**
Current – Hong Kong		
Charge for the year	**67.6**	85.1
Overprovision in prior years	**–**	(3.5)
Current – Overseas		
Charge for the year	**1.3**	1.2
Deferred	**(28.1)**	4.6
Total tax charge for the year	**40.8**	87.4

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

7. Dividends:

	2018	2017
	HK$'M	**HK$'M**
Interim – HK5.0 cents (2017 – HK4.5 cents) per ordinary share	**44.9**	40.4
Proposed final – HK14.0 cents (2017 – HK11.5 cents) per ordinary share	**125.8**	103.4
	170.7	143.8

8. The calculation of the basic earnings per ordinary share is based on the profit for the year attributable to equity holders of the parent of HK$547.7 million (2017 – HK$982.1 million), adjusted for the distribution related to perpetual securities of HK$114.8 million (2017 – HK$80.5 million), and on the weighted average of 898.8 million (2017 – 907.3 million) ordinary shares of the Company in issue during the year.

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.

9. Included in debtors, deposits and prepayments is an amount of HK$140.6 million (2017 – HK$140.3 million) representing the trade debtors of the Group. The ageing analysis of these debtors as at the end of the reporting period, based on the invoice date, is as follows:

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

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.

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

	2018	**2017**
	HK$'M	**HK$'M**
Outstanding balances with ages:		
Within 3 months	**65.1**	75.9
Between 4 to 6 months	**0.2**	0.1
Between 7 to 12 months	**0.1**	0.1
	65.4	76.1

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

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 ended 31st December, 2018.

REVIEW OF RESULTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31st December, 2018, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditors.

CORPORATE GOVERNANCE

The Company has complied with the Code Provisions in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the year ended 31st December, 2018, except that:

(1) The roles of the Chairman and Chief Executive Officer are not separated and performed by two different individuals, due to practical necessity to cater to the Group's corporate operating structure.

(2) The Non-Executive Director and Independent Non-Executive Directors of the Company were not appointed for specific terms, but in accordance with the provisions of the Bye-laws of the Company, all Directors (including the Non-Executive Director and the Independent Non-Executive Directors) of the Company are subject to retirement by rotation at least once every three years, and the retiring Directors are eligible for re-election.

BOARD OF DIRECTORS

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

Executive Directors:
Mr. LO Yuk Sui
(Chairman and Chief Executive Officer)
Miss LO Po Man
(Vice Chairman and Managing Director)
Ms. Belinda YEUNG Bik Yiu
(Chief Operating Officer)
Mr. Donald FAN Tung
Mr. Jimmy LO Chun To
Mr. Kenneth NG Kwai Kai
Mr. Allen WAN Tze Wai

Non-Executive Director:
Dr. Francis CHOI Chee Ming, GBS, JP
(Vice Chairman)

Independent Non-Executive Directors:
Ms. Alice KAN Lai Kuen
Professor Japhet Sebastian LAW
Ms. Winnie NG, JP
Mr. WONG Chi Keung

By Order of the Board
LO YUK SUI
Chairman

Hong Kong, 26th March, 2019