Financial Statements

Independent Auditor's Report

Independent auditor's report to the members of
The Hongkong and Shanghai Hotels, Limited
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of The Hongkong and Shanghai Hotels, Limited ("the company") and its subsidiaries (together "the group") set out on pages 185 to 251, which comprise the consolidated statement of financial position as at 31 December 2018, 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 31 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 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.

Recoverability of the carrying value of hotel properties owned by the group, a joint venture and associates

(Refer to note 34 and note 12 to the consolidated financial statements)

The Key Audit Matter	How the matter was addressed in our audit
The group owns interests in various hotel properties around the world either directly or through its investments in a joint venture and associates. These hotel properties, which are stated at cost less accumulated depreciation and impairment, are significant to the group in terms of their values. At the year end management assesses if there are any indicators of potential impairment of hotel properties. In such cases, management assesses the recoverability of the carrying value of hotel properties based on valuations prepared by an external property valuer in accordance with recognised industry standards. The valuation of hotel properties is complex and involves a significant degree of judgement and estimation, particularly given the diverse locations of the hotel properties and the particular economic and political circumstances at each location which can affect, inter alia, occupancy rates, revenue per available room and future growth rates. We identified assessing the recoverability of the carrying value of hotel properties owned by the group and its investees as a key audit matter because of the complexity of the valuations and because of the significant judgement and estimation required and the potential for management bias in the selection of the assumptions.	Our audit procedures to assess the recoverability of the carrying value of hotel properties owned by the group and its investees included the following: ◆ discussing triggering events and/or indicators of potential impairment of hotel properties with management and inspecting the operating results and cash flow forecasts of the respective hotels; ◆ where such triggering events or indicators were determined to exist: – meeting the external property valuer, independent of management, to discuss the valuations and assess the valuation methodology applied and considering the valuer's qualifications, expertise in the properties being valued, objectivity and independence; – challenging the key estimates and assumptions adopted in the valuations, including occupancy rates, revenue per available room, future growth rates and the discount rates applied, by comparing these with budgets approved by the directors, market available data for comparable properties and the current year's operating results; and – performing sensitivity analyses by making adjustments to the key estimates and assumptions to assess the risk of possible management bias in the valuation exercise.

Independent Auditor's Report

Valuation of investment properties owned by the group and a joint venture

(Refer to note 34 and note 12 to the consolidated financial statements)

The Key Audit Matter	How the matter was addressed in our audit
The group holds a portfolio of investment properties comprising office, residential and commercial properties in various locations around the world. These investment properties, which are stated at fair value, are significant to the group in terms of their values. Management's assessment of the fair value of investment properties is based on valuations performed by external property valuers in accordance with recognised industry standards. These valuations are complex and involve a significant degree of judgement and estimation in respect of capitalisation rates and market rents, particularly given the number and diversity of locations and nature of the investment properties. We identified assessing the valuation of investment properties owned by the group and a joint venture as a key audit matter because of the complexity of the valuations and because of the significant judgement and estimation required.	Our audit procedures to assess the valuation of investment properties owned by the group and a joint venture included the following: ◆ discussing with management their assessment of the valuations, including the key assumptions adopted and recent market developments at each location where the investment properties are situated; ◆ meeting the external property valuers, independent of management, to discuss the valuations and assess the valuation methodologies applied and considering the valuers' qualifications, expertise in the properties being valued, objectivity and independence; ◆ with the assistance of our property valuations specialists, challenging the key estimates and assumptions adopted in the valuations, including the capitalisation rates and market rents, by comparing the key estimates with market available data, government produced market statistics and the current year's operating results.

Information Other Than the Consolidated Financial Statements and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises all 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 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 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 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 either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the group's financial reporting process.

Auditor's Responsibility 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. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, 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.

Independent Auditor’s Report

- 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.

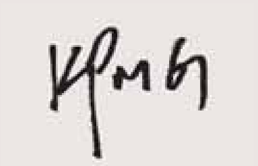
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely 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 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 Yau Ngai Lun, Alan.



KPMG
Certified Public Accountants
8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

14 March 2019

Consolidated Statement of Profit or Loss (HK$m)

	Note	2018	2017
		Year ended 31 December	
Revenue	3	**6,214**	5,782
Cost of inventories		**(470)**	(433)
Staff costs and related expenses		**(2,291)**	(2,135)
Rent and utilities		**(567)**	(548)
Other operating expenses		**(1,336)**	(1,244)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)		**1,550**	1,422
Depreciation and amortisation		**(542)**	(503)
Operating profit		**1,008**	919
Interest income		**18**	22
Financing charges	5	**(70)**	(109)
Net financing charges		**(52)**	(87)
Profit after net financing charges	4	**956**	832
Share of results of joint ventures	14	**(24)**	(97)
Share of results of associates	15	**(29)**	(24)
Increase in fair value of investment properties	12	**523**	609
Profit before taxation		**1,426**	1,320
Taxation			
Current tax	6	**(180)**	(172)
Deferred tax	6	**(4)**	4
Profit for the year		**1,242**	1,152
Profit attributable to:			
Shareholders of the company		**1,243**	1,155
Non-controlling interests		**(1)**	(3)
Profit for the year		**1,242**	1,152
Earnings per share, basic and diluted (HK$)	9	**0.78**	0.73

The notes on pages 190 to 251 form part of these financial statements.

Consolidated Statement of Comprehensive Income (HK$m)

	Note	Year ended 31 December 2018	2017
Profit for the year		**1,242**	1,152
Other comprehensive income for the year, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**(337)**	511
– financial statements of joint ventures		**(51)**	89
– loans to an associate		**(26)**	84
– hotel operating rights		**(20)**	62
		(434)	746
Cash flow hedges:			
– effective portion of changes in fair values		**(7)**	(8)
– transfer from equity to profit or loss		**6**	20
		(435)	758
Item that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit retirement obligations		**(5)**	(1)
Other comprehensive income	8	**(440)**	757
Total comprehensive income for the year		**802**	1,909
Total comprehensive income attributable to:			
Shareholders of the company		**816**	1,891
Non-controlling interests		**(14)**	18
Total comprehensive income for the year		**802**	1,909

The notes on pages 190 to 251 form part of these financial statements.

Consolidated Statement of Financial Position (HK$m)

	Note	At 31 December 2018	2017
Non-current assets			
Investment properties		**33,077**	36,249
Other properties, plant and equipment		**8,452**	7,106
	12	**41,529**	43,355
Properties under development for sale	13	**3,121**	–
Interest in joint ventures	14	**1,089**	1,055
Interest in associates	15	**638**	699
Hotel operating rights	16	**530**	564
Deferred tax assets	18(b)	**49**	38
		46,956	45,711
Current assets			
Inventories	19	**84**	77
Derivative financial instruments	17	**2**	–
Trade and other receivables	20	**715**	750
Amount due from a joint venture	30(b)	**57**	60
Cash at banks and in hand	21(a)	**1,178**	1,922
		2,036	2,809
Current liabilities			
Trade and other payables	22	**(1,441)**	(1,424)
Interest-bearing borrowings	23	**(403)**	(3,391)
Derivative financial instruments	17	**–**	(4)
Current taxation	18(a)	**(26)**	(41)
		(1,870)	(4,860)
Net current assets/(liabilities)		**166**	(2,051)
Total assets less current liabilities		**47,122**	43,660
Non-current liabilities			
Interest-bearing borrowings	23	**(6,692)**	(4,052)
Trade and other payables	22	**(252)**	(230)
Net defined benefit retirement obligations	26(a)	**(22)**	(17)
Derivative financial instruments	17	**(7)**	–
Deferred tax liabilities	18(b)	**(672)**	(659)
		(7,645)	(4,958)
Net assets		**39,477**	38,702
Capital and reserves			
Share capital	24	**5,509**	5,224
Reserves		**33,432**	32,951
Total equity attributable to shareholders of the company		**38,941**	38,175
Non-controlling interests		**536**	527
Total equity		**39,477**	38,702

Approved by the Board of Directors on 14 March 2019 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Matthew Lawson, Directors

The notes on pages 190 to 251 form part of these financial statements.

Consolidated Statement of Changes in Equity (HK$m)

Year ended 31 December

Attributable to shareholders of the company

	Note	Share capital	Reserves: Hedging reserve	Reserves: Exchange and other reserves	Reserves: Retained profits	Reserves: Total reserves	Total	Non-controlling interests	Total equity
At 1 January 2017		5,005	(27)	(730)	32,111	31,354	36,359	215	36,574
Changes in equity for 2017:									
Profit for the year		–	–	–	1,155	1,155	1,155	(3)	1,152
Other comprehensive income	8	–	12	724	–	736	736	21	757
Total comprehensive income for the year		–	12	724	1,155	1,891	1,891	18	1,909
Dividends approved in respect of the previous year	10	165	–	–	(235)	(235)	(70)	–	(70)
Dividends approved in respect of the current year	10	54	–	–	(63)	(63)	(9)	–	(9)
Dividend paid to non-controlling interests		–	–	–	–	–	–	(5)	(5)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	–	125	125
Disposal of interest in subsidiaries to a non-controlling shareholder		–	–	70	(66)	4	4	174	178
Balance at 31 December 2017		5,224	(15)	64	32,902	32,951	38,175	527	38,702
Changes in equity for 2018:									
Profit for the year		**–**	**–**	**–**	**1,243**	**1,243**	**1,243**	**(1)**	**1,242**
Other comprehensive income	8	**–**	**(1)**	**(426)**	**–**	**(427)**	**(427)**	**(13)**	**(440)**
Total comprehensive income for the year		**–**	**(1)**	**(426)**	**1,243**	**816**	**816**	**(14)**	**802**
Dividends approved in respect of the previous year	10	**221**	**–**	**–**	**(255)**	**(255)**	**(34)**	**–**	**(34)**
Dividends approved in respect of the current year	10	**64**	**–**	**–**	**(80)**	**(80)**	**(16)**	**–**	**(16)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Capital contribution from a non-controlling shareholder		**–**	**–**	**–**	**–**	**–**	**–**	**28**	**28**
Balance at 31 December 2018		**5,509**	**(16)**	**(362)**	**33,810**	**33,432**	**38,941**	**536**	**39,477**

The notes on pages 190 to 251 form part of these financial statements.

Consolidated Statement of Cash Flows (HK$m)

	Note	Year ended 31 December	
		2018	2017
Operating activities			
Profit after net financing charges		**956**	832
Adjustments for:			
Depreciation	12(a)	**528**	489
Amortisation of hotel operating rights	16	**14**	14
Interest income	4	**(18)**	(22)
Financing charges	5	**70**	109
Operating profit before changes in working capital		**1,550**	1,422
Payment for the development of properties under development for sale		**(140)**	–
Changes in other working capital		**26**	(53)
Cash generated from operations		**1,436**	1,369
Net tax paid:			
Hong Kong profits tax		**(171)**	(142)
Overseas tax		**(22)**	(11)
Net cash generated from operating activities		**1,243**	1,216
Investing activities			
Acquisition of investment properties in Shanghai		**–**	(423)
Capital expenditure on property, plant and equipment and investment properties		**(426)**	(601)
Capital expenditure on projects under development		**(959)**	(630)
Cash injected from a non-controlling shareholder		**28**	22
Distribution from an associate		**6**	5
Capital injection into a joint venture		**(109)**	(44)
Net loan repayment from a joint venture		**–**	56
Net cash used in investing activities		**(1,460)**	(1,615)
Financing activities			
Drawdown of term loans		**1,331**	–
Repayment of term loans		**(3,373)**	–
Net increase in revolving loans		**1,702**	235
Net withdrawal/(placement) of interest-bearing bank deposits with maturity of more than three months		**179**	(125)
Interest paid and other financing charges		**(140)**	(140)
Interest received		**19**	21
Disposal of interest in subsidiaries to a non-controlling shareholder		**–**	178
Dividends paid to shareholders of the company		**(50)**	(79)
Dividends paid to holders of non-controlling interests		**(5)**	(5)
Net cash (used in)/generated from financing activities		**(337)**	85
Net decrease in cash and cash equivalents		**(554)**	(314)
Cash and cash equivalents at 1 January		**1,660**	1,955
Effect of changes in foreign exchange rates		**(8)**	19
Cash and cash equivalents at 31 December	21(a)	**1,098**	1,660

The notes on pages 190 to 251 form part of these financial statements.

Notes to the Financial Statements

1. Company-Level Statement of Financial Position (HK$m)

	Note	At 31 December 2018	2017
Non-current assets			
Investment in subsidiaries	33	**–**	–
Current assets			
Amounts due from subsidiaries		**14,354**	14,155
Other receivables		**6**	7
Cash at banks and in hand		**47**	289
		14,407	14,451
Current liabilities			
Amounts due to subsidiaries		**(64)**	(696)
Other payables and accruals		**(23)**	(25)
		(87)	(721)
Net assets		**14,320**	13,730
Capital and reserves			
Share capital	24	**5,509**	5,224
Reserves	25(a)	**8,811**	8,506
Total equity		**14,320**	13,730

Approved by the Board of Directors on 14 March 2019 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Matthew Lawson, Directors

2. Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual 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 requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the group are disclosed in note 34.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group. Note 35 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

3. Revenue (HK$m)

The company is an investment holding company; its subsidiary companies, joint ventures and associates are engaged in the ownership, management and operation of hotels, commercial properties and clubs and services.

Revenue represents the consideration expected to be received in respect of the transfer of goods and services in accordance with HKFRS 15, *Revenue from contracts with customers*, except for rental revenue derived from the hotels' shopping arcade and offices and commercial properties which is recognised under the scope of HKAS 17, *Leases*. The amount of each significant category of revenue recognised during the year is as follows:

	2018	2017
Hotels		
– Rooms	**2,141**	1,912
– Food and beverage	**1,330**	1,246
– Shopping arcades and offices	**625**	643
– Others	**438**	388
	4,534	4,189
Commercial properties		
– Residential properties	**500**	489
– Offices	**102**	90
– Shopping arcades	**369**	364
	971	943
Clubs and Services		
– Golf clubs	**247**	221
– Peak Tram operation	**140**	128
– Peninsula Merchandising	**262**	240
– Others	**60**	61
	709	650
	6,214	5,782

Notes to the Financial Statements

4. Profit After Net Financing Charges (HK$m)

Profit after net financing charges is arrived at after charging/(crediting):

	2018	2017
Amortisation	**14**	14
Depreciation	**528**	489
Auditor's remuneration:		
audit services	**11**	10
taxation and other services	**4**	4
Minimum operating lease charges for properties, including contingent rent of HK$12 million (2017: HK$13 million)	**175**	175
Interest income	**(18)**	(22)
Rentals receivable from investment properties less direct outgoings of HK$20 million (2017: HK$20 million)	**(1,211)**	(1,229)

5. Financing Charges (HK$m)

	2018	2017
Interest on bank borrowings	**120**	116
Other borrowing costs	**39**	19
Total interest expenses on financial liabilities carried at amortised cost	**159**	135
Derivative financial instruments:		
– cash flow hedges, transfer from equity (note 8)	**6**	22
	165	157
Less: Interest expenses capitalised into properties under development*	**(95)**	(48)
	70	109

* The borrowing costs have been capitalised at an average rate of 3.0% in 2018 (2017: 2.4%).

6. Income Tax in the Consolidated Statement of Profit or Loss (HK$m)

(a) Taxation in the consolidated statement of profit or loss represents:

	2018	2017
Current tax – Hong Kong profits tax		
Provision for the year	**166**	160
Over-provision in respect of prior years	**(2)**	(1)
	164	159
Current tax – Overseas		
Provision for the year	**18**	13
Over-provision in respect of prior years	**(2)**	–
	16	13
	180	172
Deferred tax		
Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	**(13)**	(16)
Increase in net deferred tax liabilities relating to other temporary differences	**17**	13
Effect of decrease in tax rates on deferred tax balances	**–**	(1)
	4	(4)
Total	**184**	168

The provision for Hong Kong profits tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018	2017
Profit before taxation	**1,426**	1,320
Notional tax at the domestic income tax rate of 16.5% (2017: 16.5%)	**235**	218
Tax effect of non-deductible expenses	**10**	8
Tax effect of non-taxable income	**(3)**	(6)
Tax effect of share of losses of a joint venture and associates	**9**	20
Tax effect of fair value gain on Hong Kong investment properties	**(95)**	(113)
Tax effect of (recognition)/utilisation of previously unrecognised tax losses	**(8)**	9
Tax effect of tax losses not recognised	**31**	28
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3**	3
Effect of change in tax rates on deferred tax balances as at 1 January	**–**	(2)
Over-provision in respect of prior years	**(4)**	(1)
Others	**6**	4
Actual tax expense	**184**	168

Notes to the Financial Statements

7. Emoluments of Key Management Personnel (HK$000)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company and the group. It comprises the Board of Directors of the company and the group Management Board (GMB). Members of the GMB include the Executive Directors and five (2017: six) senior management. The total remuneration of the key management personnel is shown below:

	2018		2017	
	Executive and Non-executive Directors	**GMB members other than Executive Directors**	Executive and Non-executive Directors	GMB members other than Executive Directors
Directors' fees	**5,894**	**–**	4,881	–
Basic compensation	**16,482**	**19,606**	16,144	22,523
Bonuses and incentives	**15,043**	**8,290**	13,548	8,008
Retirement benefits	**2,697**	**1,664**	2,641	2,137
Other benefits	**539**	**727**	541	945
	40,655	**30,287**	37,755	33,613

Further details of the remuneration of the Directors (on a named basis) and senior management, and remuneration paid to the five highest paid individuals by bands are disclosed in the "2018 Remuneration of Directors and Senior Management" section of the Remuneration Committee Report, which forms an integral part of these audited financial statements.

8. Other Comprehensive Income and the Related Tax Effects (HK$m)

	2018			2017		
	Gross amount before tax	**Tax (expense)/ benefit**	**Net-of-tax amount**	Gross amount before tax	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– financial statements of overseas subsidiaries	**(337)**	**–**	**(337)**	511	–	511
– financial statements of joint ventures	**(51)**	**–**	**(51)**	89	–	89
– loans to an associate	**(26)**	**–**	**(26)**	84	–	84
– hotel operating rights	**(20)**	**–**	**(20)**	62	–	62
	(434)	**–**	**(434)**	746	–	746
Cash flow hedges:						
– effective portion of changes in fair values	**(7)**	**–**	**(7)**	(10)	2	(8)
– transfer from equity to profit or loss	**6**	**–**	**6**	22	(2)	20
Remeasurement of net defined benefit retirement obligations	**(5)**	**–**	**(5)**	(1)	–	(1)
Other comprehensive income	**(440)**	**–**	**(440)**	757	–	757

9. Earnings per Share

(a) Earnings per share – basic

	2018	2017
Profit attributable to shareholders of the company (HK$m)	**1,243**	1,155
Weighted average number of shares in issue (million shares)	**1,600**	1,578
Earnings per share (HK$)	**0.78**	0.73

	2018 ***(million shares)***	2017 *(million shares)*
Issued shares at 1 January	**1,589**	*1,567*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2017 final dividend and 2018 interim dividend	**11**	*11*
Weighted average number of shares at 31 December	**1,600**	*1,578*

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2018 and 2017 and hence the diluted earnings per share is the same as the basic earnings per share.

10. Dividends (HK$m)

(a) Dividend policy

The company adopts a dividend policy of providing its shareholders with a stable and sustainable dividend stream, which is linked to the cash flows from operating activities and underlying earnings achieved. The company also offers a scrip dividend alternative to its shareholders. The consideration in respect of the new shares issued under the scrip dividend scheme is retained as capital of the company.

(b) Dividends payable to shareholders of the company attributable to the year

	2018	2017
Interim dividend declared and paid of 5 HK cents per share (2017: 4 HK cents per share)	**80**	63
Final dividend proposed after the end of the reporting period of 16 HK cents per share (2017: 16 HK cents per share)	**258**	255
	338	318

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(c) Dividends payable to shareholders of the company attributable to the previous financial year, approved and paid during the year

	2018	2017
Final dividend in respect of the previous financial year, approved and paid during the year, of 16 HK cents per share (2017: 15 HK cents per share)	**255**	235

Notes to the Financial Statements

11. Segment Reporting (HK$m)

The group is organised on a divisional basis. In a manner consistent with the way in which information is reported internally to the group's senior executive management for the purposes of resource allocation and performance assessment, the group's reportable segments are as follows:

Hotels	This segment includes revenue generated from operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings.
Commercial Properties	This segment is engaged in the development, leasing and sale of luxury residential apartments, leasing of retail and office premises (other than those in hotel properties), as well as operating food and beverage outlets in such premises.
Clubs and Services	This segment is engaged in the operation of golf courses, the Peak Tram, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

No operating segments have been aggregated to form the reportable segments.

(a) Segment results

The results of the group's reportable segments for the years ended 31 December 2018 and 2017 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Reportable segment revenue*	**4,534**	4,189	**971**	943	**709**	650	**6,214**	5,782
Reportable segment operating profits before interest, taxation, depreciation and amortisation (EBITDA)	**840**	732	**572**	558	**138**	132	**1,550**	1,422
Depreciation and amortisation	**(492)**	(457)	**(12)**	(10)	**(38)**	(36)	**(542)**	(503)
Segment operating profit	**348**	275	**560**	548	**100**	96	**1,008**	919

Reconciliation of segment operating profit to the profit before taxation in the consolidated statement of profit or loss is not presented, since the segment operating profit is the same as the operating profit presented in the consolidated statement of profit or loss.

* Analysis of segment revenue is disclosed in note 3.

11. Segment Reporting (HK$m) continued

(b) Segment assets

Segment assets include all tangible and current assets and hotel operating rights held directly by the respective segments. The group's segment assets and unallocated assets as at 31 December 2018 and 2017 are set out as follows:

	Note	**2018**	2017
Reportable segment assets			
Hotels		**19,855**	22,250
Commercial properties		**25,019**	21,417
Clubs and services		**1,105**	1,079
		45,979	44,746
Unallocated assets			
Interest in joint ventures	14	**1,089**	1,055
Interest in associates	15	**638**	699
Deferred tax assets	18(b)	**49**	38
Amount due from a joint venture	30(b)	**57**	60
Derivative financial instruments	17	**2**	–
Cash at banks and in hand	21(a)	**1,178**	1,922
Consolidated total assets		**48,992**	48,520

(c) Geographical information

The following table sets out information about the geographical location of (i) the group's revenue from external customers and (ii) the group's total specified non-current assets (excluding deferred tax assets). The geographical location of revenue is analysed based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment and properties under development held for sale, the location of the operation to which they are allocated in the case of hotel operating rights and the location of operations in the case of interests in joint ventures and associates.

	Revenue from external customers		Specified non-current assets	
	2018	2017	**2018**	2017
Hong Kong	**2,724**	2,626	**30,795**	30,255
Other Asia *	**1,886**	1,656	**6,184**	6,298
United States of America and Europe	**1,604**	1,500	**9,928**	9,120
	6,214	5,782	**46,907**	45,673

* Other Asia includes Mainland China, Japan, Thailand, The Philippines, Vietnam and Myanmar.

Notes to the Financial Statements

12. Investment Properties and Other Properties, Plant and Equipment (HK$m)

(a) Movements of investment properties and other properties, plant and equipment

	Land	Hotel and other buildings held for own use	Motor vehicles, plant and equipment	Construction in progress	Sub-total	Investment properties	Investment property held for redevelopment	Total
Cost or valuation:								
At 1 January 2017	828	7,965	4,418	485	13,696	31,313	2,583	47,592
Exchange adjustments	54	278	93	14	439	191	293	923
Additions	–	45	91	681	817	496	514	1,827
Disposals	–	–	(36)	–	(36)	–	–	(36)
Transfer	–	319	172	(741)	(250)	–	250	–
Fair value adjustment	–	–	–	–	–	609	–	609
At 31 December 2017	882	8,607	4,738	439	14,666	32,609	3,640	50,915
Representing:								
Cost	882	8,607	4,738	439	14,666	–	–	14,666
Valuation – 2017	–	–	–	–	–	32,609	3,640	36,249
	882	8,607	4,738	439	14,666	32,609	3,640	50,915
At 1 January 2018	**882**	**8,607**	**4,738**	**439**	**14,666**	**32,609**	**3,640**	**50,915**
Exchange adjustments	**4**	**(33)**	**(9)**	**(52)**	**(90)**	**(83)**	**(92)**	**(265)**
Additions	**19**	**116**	**138**	**643**	**916**	**28**	**546**	**1,490**
Disposals	**–**	**(7)**	**(86)**	**–**	**(93)**	**–**	**–**	**(93)**
Transfer	**–**	**73**	**24**	**929**	**1,026**	**–**	**(4,094)**	**(3,068)***
Fair value adjustment	**–**	**–**	**–**	**–**	**–**	**523**	**–**	**523**
At 31 December 2018	**905**	**8,756**	**4,805**	**1,959**	**16,425**	**33,077**	**–**	**49,502**
Representing:								
Cost	**905**	**8,756**	**4,805**	**1,959**	**16,425**	**–**	**–**	**16,425**
Valuation – 2018	**–**	**–**	**–**	**–**	**–**	**33,077**	**–**	**33,077**
	905	**8,756**	**4,805**	**1,959**	**16,425**	**33,077**	**–**	**49,502**
Accumulated depreciation and impairment losses:								
At 1 January 2017	324	3,588	2,968	–	6,880	–	–	6,880
Exchange adjustments	31	131	64	–	226	–	–	226
Charge for the year	–	182	307	–	489	–	–	489
Written back on disposals	–	–	(35)	–	(35)	–	–	(35)
At 31 December 2017	355	3,901	3,304	–	7,560	–	–	7,560
At 1 January 2018	**355**	**3,901**	**3,304**	**–**	**7,560**	**–**	**–**	**7,560**
Exchange adjustments	**3**	**(25)**	**(2)**	**–**	**(24)**	**–**	**–**	**(24)**
Charge for the year	**–**	**202**	**326**	**–**	**528**	**–**	**–**	**528**
Written back on disposals	**–**	**(6)**	**(85)**	**–**	**(91)**	**–**	**–**	**(91)**
At 31 December 2018	**358**	**4,072**	**3,543**	**–**	**7,973**	**–**	**–**	**7,973**
Net book value:								
At 31 December 2018	**547**	**4,684**	**1,262**	**1,959**	**8,452**	**33,077**	**–**	**41,529**
At 31 December 2017	527	4,706	1,434	439	7,106	32,609	3,640	43,355

* The net movement represents the carrying value of The Peninsula London residential portion which was apportioned from fixed assets to properties under development for sale (note 13).

12. Investment Properties and Other Properties, Plant and Equipment (HK$m) continued

(a) Movements of investment properties and other properties, plant and equipment continued

The additions in 2018 mainly related to the development costs incurred for the projects in London and Yangon and the renovation costs incurred by the group's hotels.

The Peninsula London development comprises a mixed use complex consisting of a Peninsula hotel and luxury residential apartments. With the commencement of the construction of the superstructure of this development during the year, the portion of the carrying value relating to the apartments was apportioned from investment property held for redevelopment to properties under development for sale (note 13). The portion relating to the hotel remains in the properties, plant and equipment and is accounted for as construction in progress.

The group assessed the recoverable amounts of its other properties, plant and equipment at the reporting date in accordance with the accounting policy as disclosed in note 34(i). Based on the assessment, the directors considered that no provision for or reversal of impairment was required as at 31 December 2018 and 2017.

(b) All investment properties of the group were revalued as at 31 December 2018. The changes in fair value of the investment properties during the year were accounted for in the consolidated statement of profit or loss. The valuations were carried out by valuers independent of the group who have staff with recent experience in the location and category of the property being valued. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date. Details of the valuers are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong		
Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited (Savills)	Members of the Hong Kong Institute of Surveyors
Other Asia *		
Retail shops, offices, residential apartments and vacant land	Savills	Members of the Hong Kong Institute of Surveyors
	Colliers International Consultancy & Valuation (Singapore) Pte. Limited (Colliers)	Members of the Royal Institution of Chartered Surveyors
United States of America		
Retail shops and vacant land	Colliers	Members of the Royal Institution of Chartered Surveyors
Europe		
Retail shops, office and residential apartments	Colliers	Members of the Royal Institution of Chartered Surveyors

* Other Asia includes Mainland China, Japan, Thailand, The Philippines and Vietnam.

Notes to the Financial Statements

12. Investment Properties and Other Properties, Plant and Equipment (HK$m) continued

(c) Fair value measurement of investment properties

The fair value of the group's investment properties is mainly determined using the income capitalisation approach by applying the expected rental income with a capitalisation rate adjusted for the quality and location of the buildings. The following table summarises the valuation parameters adopted by the valuers in assessing the fair value of the group's investment properties as at 31 December 2018:

Valuation parameters	Range
Capitalisation rate	
– Shopping arcades	3.8% – 6.6% (2017: 3.8% – 6.6%)
– Offices	3.9% – 4.1% (2017: 3.9% – 4.1%)
– Residential properties	2.9% – 3.7% (2017: 2.9% – 3.7%)
Expected monthly market rental per square foot	
– Shopping arcades	HK$43 – HK$1,300 (2017: HK$44 – HK$1,300)
– Offices	HK$30 – HK$54 (2017: HK$29 – HK$54)
– Residential properties	HK$41 – HK$74 (2017: HK$40 – HK$74)

Details of the movement of the group's investment properties are disclosed in note 12(a) above.

The net fair value adjustment of investment properties is recognised as a non-operating item in the consolidated statement of profit or loss.

(d) Investment properties leased out under operating leases

The group leases its investment properties under operating leases. The leases typically run for an initial period of one to five years, with or without options to renew the leases after that date at which time all terms are renegotiated.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 28(b).

12. Investment Properties and Other Properties, Plant and Equipment (HK$m) continued

(e) The analysis of net book value of properties is as follows:

		2018	2017
Hong Kong	– Long term leases	**17,606**	28,124
	– Medium term lease	**12,644**	1,551
Other Asia *	– Freehold	**1,234**	1,238
	– Long term lease	**1,347**	1,318
	– Medium term lease	**2,228**	1,947
	– Short term lease	**125**	139
USA	– Freehold	**1,282**	1,192
	– Long term lease	**1,546**	1,570
Europe	– Freehold	**734**	763
	– Long term lease	**1,344**	3,640
		40,090	41,482

* Other Asia includes Mainland China, Japan, Thailand, The Philippines, Vietnam and Myanmar.

	2018	2017
Representing:		
Land and buildings carried at fair value (investment properties)	**33,077**	36,249
Land and buildings carried at cost	**7,013**	5,233
	40,090	41,482

(f) Hotel and investment properties, all held through subsidiaries, are as follows:

	Usage
Held in Hong Kong:	
Long term leases (over 50 years):	
The Peninsula Hong Kong, Salisbury Road	Hotel and commercial rentals
The Peninsula Office Tower, 18 Middle Road	Office
Repulse Bay Apartments, 101 Repulse Bay Road	Residential
Repulse Bay Garage, 60 Repulse Bay Road	Commercial rentals
St. John's Building, 33 Garden Road	Office
Medium term lease (between 10 and 50 years):	
The Peak Tower, 128 Peak Road	Commercial rentals
The Repulse Bay, 109 Repulse Bay Road	Residential and commercial rentals
Held in Mainland China:	
Medium term lease (between 10 and 50 years):	
The Peninsula Beijing, 8 Goldfish Lane, Wangfujing, Beijing	Hotel and commercial rentals
Shanghai apartments, No. 32 The Bund, 32 Zhong Shan Dong Yi Road, Shanghai	Residential
Held in Japan:	
Long term lease (over 50 years):	
The Peninsula Tokyo, 1-8–1 Yurakucho, Chiyoda-ku, Tokyo	Hotel and commercial rentals

Notes to the Financial Statements

12. Investment Properties and Other Properties, Plant and Equipment (HK$m) continued

(f) Hotel and investment properties, all held through subsidiaries, are as follows: continued

	Usage
Held in Thailand:	
Freehold:	
The Peninsula Bangkok,	
333 Charoennakorn Road, Klongsan, Bangkok 10600	Hotel
Vacant land, near The Peninsula Bangkok	Undetermined
Thai Country Club, Bangna-Trad, Chachoengsao	Golf club
Land plots, Bangpakong District, Chachoengsao	Undetermined
Held in The Philippines:	
Short term lease (less than 10 years):	
The Peninsula Manila,	
Corner of Ayala and Makati Avenues,	
1226 Makati City, Metro Manila	Hotel and commercial rentals
Held in Vietnam:	
Short term lease (less than 10 years):	
The Landmark, 5B Ton Duc Thang Street,	
District 1, Ho Chi Minh City	Residential and commercial rentals
Held in the United States of America:	
Freehold:	
Quail Lodge Golf Club	Golf club
Quail Lodge Resort	
8205 Valley Greens Drive, Carmel, California	Resort
Vacant land, near Quail Lodge	Undetermined
The Peninsula Chicago,	
108 East Superior Street	
(at North Michigan Avenue), Chicago, Illinois	Hotel
Long term lease (over 50 years):	
The Peninsula New York,	
700 Fifth Avenue at 55th Street, New York	Hotel and commercial rentals
Held in France:	
Freehold:	
21 avenue Kléber, Paris	Commercial rentals
21 Rue de Longchamp, Paris	Residential
Held in the United Kingdom:	
Long term lease (over 50 years):	
1-5 Grosvenor Place,	
London SW1X 7YL	Under redevelopment
Held in Myanmar:	
Medium term lease (between 10 and 50 years):	
371-380 Bogyoke Aung San Road,	
Yangon	Under redevelopment

12. Investment Properties and Other Properties, Plant and Equipment (HK$m) continued

(g) The net book value of the group's hotels and golf courses as at 31 December 2018 amounted to HK$6,282 million (2017: HK$6,476 million). To provide additional information for shareholders, the Directors commissioned an independent valuation of these properties as at 31 December 2018.

The total valuation placed on these properties amounted to HK$9,682 million (2017: HK$9,656 million) as at 31 December 2018. It is important to note that the surplus of HK$3,400 million (2017: HK$3,180 million) and the related deferred taxation and non-controlling interests, if any, have not been incorporated in the consolidated financial statements but are provided for additional information only.

The fair value of the group's hotel properties and golf courses is determined based on the discounted cash flow approach by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates.

The valuations were carried out by valuers independent of the group, details of which are as follows:

Description of hotels and golf courses	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong, the United States of America and other Asia		
Hotels and golf courses	Colliers	Members of the Royal Institution of Chartered Surveyors

13. Properties under development for sale (HK$m)

	2018	2017
Apportioned from investment property held for redevelopment (note 12(a))	**3,068**	–
Addition during the year	**150**	–
Exchange adjustments	**(97)**	–
	3,121	–

In 2013, the group acquired a 50% interest in the leasehold of 1-5 Grosvenor Place in Belgravia, Central London, for a cash consideration of HK$1,564 million (GBP132.5 million). In 2016, the group assumed 100% ownership of the property by buying out Grosvenor's equity interest for an additional cash consideration of HK$1,087 million (GBP107.5 million). Grosvenor will remain as the landlord under the 150-year lease.

With the commencement of the construction of the superstructure of this development during the year, the portion of the carrying value relating to the apartments was apportioned from investment property held for redevelopment to properties under development for sale. As at 31 December 2018, the balance of properties under the development amounted to HK$3,121 million and such amount will be recovered or recognised as cost of inventories after more than one year.

Reservation fees and pre-sale deposits, if any, paid by buyers of the apartments will be held in escrow accounts in accordance with the local regulations in the UK and therefore, such fees and deposits are not reflected in the consolidated statement of financial position.

Notes to the Financial Statements

14. Interest in Joint Ventures (HK$m)

	2018	2017
Share of net assets	**568**	534
Loans to a joint venture (note 30(b))	**521**	521
	1,089	1,055

(a) Details of the joint ventures, which are accounted for using the equity method in the group's consolidated financial statements, are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Shanghai Waitan Hotel Company Limited (PSW)	Incorporated	PRC	US$117,500,000 (31 December 2017: US$117,500,000)	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)*	Incorporated	Turkey	TRY288,300,000 (31 December 2017: TRY171,700,000)	50%	Hotel investment

* PIT was incorporated on 10 February 2016 and the group's interest in this joint venture is held indirectly by the company. PIT has redevelopment and operating rights in respect of a property within the Salıpazarı Port Project Area in Istanbul, Turkey. The group, together with its joint venture partner, intends to redevelop the property into The Peninsula Istanbul. The net assets of PIT at 31 December 2018 mainly comprised property under development and cash at bank and in hand of HK$594 million (2017: HK$479 million) and HK$3 million (2017: HK$9 million) respectively.

(b) PSW has pledged its properties inclusive of the land use rights as security for an initial loan facility amounting to RMB2,500 million (HK$2,847 million) (2017: RMB2,500 million (HK$2,991 million)). As at 31 December 2018, the loan drawn down amounted to RMB1,068 million (HK$1,216 million) (2017: RMB1,205 million (HK$1,442 million)). The net carrying amount of these pledged assets amounted to RMB2,728 million (HK$3,106 million) (2017: RMB2,905 million (HK$3,475 million)).

14. Interest in Joint Ventures (HK$m) continued

(c) Set out below is a summary of the financial information on PSW, of which the group has a 50% share:

	2018	2017
Non-current assets	**2,548**	2,808
Cash at bank and in hand	**161**	154
Apartments held for sale and other current assets	**670**	738
Current liabilities	**(368)**	(341)
Non-current liabilities	**(2,526)**	(2,748)
Net assets	**485**	611
Proceeds from sale of apartments	**119**	773
Hotel revenue and rental income	**599**	603
	718	1,376
Carrying value of apartments sold *	**(115)**	(773)
Hotel cost of inventories and operating expenses	**(421)**	(368)
	(536)	(1,141)
EBITDA	**182**	235
Depreciation	**(87)**	(85)
Net financing charges	**(68)**	(95)
Profit before non-operating items	**27**	55
Non-operating items, net of tax Δ	**(75)**	(250)
Loss for the year	**(48)**	(195)
The group's share of result of PSW	**(24)**	(97)

* The apartments were previously accounted for as investment properties, which were stated at fair value, and reclassified to apartments held for sale in 2017. The unrealised gains of the apartments arising from revaluation were recognised as non-operating items in the previous years. The carrying value of apartments sold during the year included cumulative revaluation gains, net of tax, of HK$46 million (2017: HK$300 million) which were realised upon disposal.

Δ The non-operating items in 2018 mainly represented the unrealised loss on revaluation of the hotel's commercial arcade, net of tax (2017: unrealised loss in respect of the provision of PRC land appreciation tax and other transaction costs resulting from the reclassification of the remaining 20 apartments held for rental from investment properties to apartments held for sale and the unrealised loss on revaluation of the hotel's commercial arcade, net of tax).

Notes to the Financial Statements

15. Interest in Associates (HK$m)

	2018	2017
Interest in associates	**638**	699

(a) Details of the principal unlisted associates, which are accounted for using the equity method in the group's consolidated financial statements, are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
19 Holding SAS (19 Holding)**	Incorporated	France	EUR1,000	20%	Investment holding
Majestic EURL (Majestic)	Incorporated	France	EUR80,000,000	20%	Hotel investment and investment holding
Le 19 Avenue Kléber	Incorporated	France	EUR100,000	20%	Hotel operation
The Belvedere Hotel Partnership (BHP)#	Partnership	United States of America	US$46,500,000	20%	Hotel investment

* The group's effective interest is held indirectly by the company.
** 19 Holding holds a 100% direct interest in Majestic which owns The Peninsula Paris.
# BHP holds a 100% interest in The Peninsula Beverly Hills.

(b) Included in the balance of interest in associates are long-term unsecured loans to 19 Holding of HK$451 million (2017: HK$467 million). These loans were made pro rata to the group's shareholding in 19 Holding and bear interest rates related to the rates published by the French tax authorities.

(c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR224 million (HK$2,007 million) (2017: EUR220 million (HK$2,053 million)). As at 31 December 2018, the loan drawn down amounted to EUR224 million (HK$2,007 million) (2017: EUR220 million (HK$2,053 million)). As at 31 December 2018, the net carrying amount of the pledged asset amounted to EUR573 million (HK$5,133 million) (2017: EUR593 million (HK$5,531 million)).

(d) BHP has pledged its hotel property to an independent financial institution as security for BHP's loan facility, amounting to US$145 million (HK$1,131 million) (2017: US$145 million (HK$1,131 million)). As at 31 December 2018, the loan drawn down amounted to US$130 million (HK$1,014 million) (2017: US$134 million (HK$1,044 million). The net carrying amount of the pledged asset amounted to US$56 million (HK$437 million) (2017: US$62 million (HK$485 million)).

15. Interest in Associates (HK$m) continued

(e) Set out below is a summary of the aggregate financial information of the associates, of which the group has a 20% share:

	2018	2017
EBITDA	**207**	214
Depreciation	**(268)**	(243)
Interest	**(85)**	(91)
Net loss from continuing operations	**(146)**	(120)
Other comprehensive income	**–**	–
Total comprehensive income	**(146)**	(120)
The group's share of results of the associates	**(29)**	(24)

16. Hotel Operating Rights (HK$m)

	2018	2017
Cost		
At 1 January	**723**	657
Exchange adjustments	**(22)**	66
At 31 December	**701**	723
Accumulated amortisation		
At 1 January	**(159)**	(142)
Exchange adjustments	**2**	(3)
Amortisation for the year	**(14)**	(14)
At 31 December	**(171)**	(159)
Net book value	**530**	564

The amortisation charge for the year is included in "Depreciation and amortisation" in the consolidated statement of profit or loss.

Hotel operating rights represent the cost attributable to securing the group's rights to operate The Peninsula Beverly Hills and The Peninsula Paris.

Notes to the Financial Statements

17. Derivative Financial Instruments (HK$m)

	2018		2017
	Assets	**Liabilities**	Liabilities
Cash flow hedges:			
Interest rate swaps	**–**	**(7)**	(4)
Forward exchange contracts	**2**	**–**	–
	2	**(7)**	(4)
Less: Portion to be settled within one year			
Cash flow hedges:			
Interest rate swaps	**–**	**–**	(4)
Forward exchange contracts	**2**	**–**	–
	2	**–**	(4)
Amount to be settled after one year	**–**	**(7)**	–

18. Income Tax in the Consolidated Statement of Financial Position (HK$m)

(a) Current taxation in the consolidated statement of financial position represents:

	2018	2017
Provision for Hong Kong profits tax net provisional profits tax paid	**19**	26
Provision for overseas taxes	**4**	11
	23	37
Represented by:		
Tax recoverable (note 20)	**(3)**	(4)
Current tax payable (included in current liabilities)	**26**	41
	23	37

18. Income Tax in the Consolidated Statement of Financial Position (HK$m) continued

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities of the group recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Revaluation of investment properties	Tax allowances in excess of the related depreciation	Provisions and others	Tax losses	Cash flow hedges	Total
Deferred tax arising from:						
At 1 January 2017	492	698	(24)	(560)	(1)	605
Exchange adjustments	18	10	–	(8)	–	20
Charged/(credited) to profit or loss	(130)	5	(4)	125	–	(4)
At 31 December 2017 and at 1 January 2018	**380**	**713**	**(28)**	**(443)**	**(1)**	**621**
Exchange adjustments	**(3)**	**(1)**	**–**	**2**	**–**	**(2)**
Charged/(credited) to profit or loss	**(14)**	**48**	**(1)**	**(29)**	**–**	**4**
At 31 December 2018	**363**	**760**	**(29)**	**(470)**	**(1)**	**623**

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable.

The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position.

	2018	2017
Deferred tax assets	**49**	38
Deferred tax liabilities	**(672)**	(659)
	(623)	(621)

In accordance with the accounting policy set out in note 34(q), the group has not recognised deferred tax assets totalling HK$318 million (2017: HK$382 million) in respect of certain accumulated tax losses of HK$1,184 million (2017: HK$1,354 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The expiry dates of these tax losses are as follows:

	2018	2017
Expiring in one year	**134**	79
After one year but within five years	**870**	672
After five years but within 20 years	**81**	537
Without expiry date	**99**	66
	1,184	1,354

The group does not have any deferred tax liabilities arising from any undistributable profit in 2018 and 2017.

Notes to the Financial Statements

19. Inventories (HK$m)

	2018	2017
Food and beverage and others	**84**	77

The cost of inventories recognised as expenses in the consolidated statement of profit or loss amounted to HK$470 million (2017: HK$433 million).

20. Trade and Other Receivables (HK$m)

	2018	2017
Trade debtors	**319**	285
Rental deposits, payments in advance and other receivables	**393**	461
Tax recoverable (note 18(a))	**3**	4
	715	750

The amount of the group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$122 million (2017: HK$111 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

The ageing analysis of trade debtors is as follows:

	2018	2017
Current	**278**	253
Less than one month past due	**34**	25
One to three months past due	**6**	6
More than three months but less than 12 months past due	**1**	1
Amounts past due	**41**	32
	319	285

Trade debtors are normally due within 30 days from the date of billing. Further details on the group's credit policy and credit risk arising from trade debtors are set out in note 27(d).

21. Cash and Cash Equivalents and Other Cash Flow Information (HK$m)

(a) Cash at banks and in hand

	2018	2017
Interest-bearing bank deposits	**924**	1,658
Cash at banks and in hand	**254**	264
Total cash at banks and in hand	**1,178**	1,922
Less: Bank deposits with maturity of more than three months	**(76)**	(255)
Bank overdrafts	**(4)**	(7)
Cash and cash equivalents in the consolidated statement of cash flows	**1,098**	1,660

Cash at banks and in hand at the end of the reporting period include amounts of HK$188 million (2017: HK$218 million) held by overseas subsidiaries which are subject to regulatory and foreign exchange restrictions.

(b) Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowings (note 23)	Derivative financial instruments (note 17)	Interest payable (note 22)	Total
As at 1 January 2017	6,998	16	7	7,021
Net increasing in revolving loans	235	–	–	235
Exchange difference	194	–	1	195
Financing charges	16	–	93	109
Capitalised borrowing costs (note 5)	–	–	48	48
Effective portion of changes in fair values (note 8)	–	10	–	10
Transfer from equity to profit or loss (note 8)	–	(22)	–	(22)
Interest paid and other financing charges	–	–	(140)	(140)
As at 31 December 2017 and 1 January 2018	**7,443**	**4**	**9**	**7,456**
Drawdown of term loans	**1,331**	**–**	**–**	**1,331**
Repayment of term loans	**(3,373)**	**–**	**–**	**(3,373)**
Net increase in revolving loans	**1,702**	**–**	**–**	**1,702**
Decrease in bank overdrafts	**(3)**	**–**	**–**	**(3)**
Exchange difference	**(31)**	**–**	**–**	**(31)**
Financing charges	**26**	**–**	**44**	**70**
Capitalised borrowing costs (note 5)	**–**	**–**	**95**	**95**
Effective portion of changes in fair values (note 8)	**–**	**7**	**–**	**7**
Transfer from equity to profit or loss (note 8)	**–**	**(6)**	**–**	**(6)**
Interest paid and other financing charges	**–**	**–**	**(140)**	**(140)**
As at 31 December 2018	**7,095**	**5**	**8**	**7,108**

Notes to the Financial Statements

22. Trade and Other Payables (HK$m)

	2018	2017
Trade creditors	**152**	140
Interest payable	**8**	9
Accruals for property, plant and equipment	**195**	172
Tenants' deposits	**367**	360
Guest deposits and gift vouchers	**158**	155
Golf membership deposits	**84**	89
Other payables	**729**	729
Financial liabilities measured at amortised cost	**1,693**	1,654
Less: Non-current portion of trade and other payables	**(252)**	(230)
Current portion of trade and other payables	**1,441**	1,424

As at 31 December 2018, trade and other payables of the group expected to be settled or recognised as income after more than one year amounted to HK$346 million (2017: HK$321 million). The other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The Directors consider that the carrying amount of all trade and other payables approximates their fair value.

The ageing analysis of trade creditors is as follows:

	2018	2017
Less than three months	**147**	130
Three to six months	**1**	4
More than six months	**4**	6
	152	140

23. Interest-Bearing Borrowings (HK$m)

	2018	2017
Total facilities available:		
Term loans and revolving credits	**14,127**	9,310
Uncommitted facilities, including bank overdrafts	**429**	429
	14,556	9,739
Utilised at 31 December:		
Term loans and revolving credits	**7,170**	7,466
Uncommitted facilities, including bank overdrafts	**15**	12
	7,185	7,478
Less: Unamortised financing charges	**(90)**	(35)
	7,095	7,443
Represented by:		
Long-term bank loans, repayable within one year	**399**	3,379
Short-term bank loans and overdrafts, repayable on demand	**4**	12
	403	3,391
Long-term bank loans, repayable:		
Between one and two years	**858**	488
Between two and five years	**5,569**	3,599
Over five years	**355**	–
	6,782	4,087
Less: Unamortised financing charges	**(90)**	(35)
Non-current portion of long-term bank loans	**6,692**	4,052
Total interest-bearing borrowings	**7,095**	7,443

All of the interest-bearing borrowings are unsecured. The group intends to refinance these loan facilities upon their maturities.

All of the group's banking facilities are subject to the fulfilment of covenants relating to some of the group's consolidated statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the group were to breach the covenants, the drawn down facilities would become payable on demand. The group regularly monitors its compliance with these covenants. Further details of the group's management of liquidity risk are set out in note 27(c). As at 31 December 2018 and 2017, none of the covenants relating to drawn down facilities had been breached.

Notes to the Financial Statements

24. Share Capital

	2018		2017	
	No. of shares (million)	**HK$m**	No. of shares (million)	HK$m
Ordinary shares, issued and fully paid:				
At 1 January	**1,589**	**5,224**	1,567	5,005
Shares issued under scrip dividend scheme (note)	**24**	**285**	22	219
At 31 December	**1,613**	**5,509**	1,589	5,224

In accordance with Section 135 of the Companies Ordinance, the ordinary shares of the company do not have a par value.

All ordinary shares issued during 2018 rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

Note
During 2018, the company issued and allotted new shares which were fully paid under the scrip dividend scheme as follows:

	Number of shares (million)	Scrip price HK$	Increase in share capital HK$m
2017 final scrip dividend	18	11.972	221
2018 interim scrip dividend	6	11.264	64
	24		285

25. Reserves (HK$m)

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the company's individual components of equity between the beginning and the end of the year are set out below:

(a) Company

	Capital reserve	Retained profits	Total
At 1 January 2017	4,975	3,224	8,199
Profit for the year	–	605	605
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	605	605
Dividends approved in respect of the previous year	–	(235)	(235)
Dividends approved in respect of the current year	–	(63)	(63)
At 31 December 2017	4,975	3,531	8,506
At 1 January 2018	**4,975**	**3,531**	**8,506**
Profit for the year	**–**	**640**	**640**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**640**	**640**
Dividends approved in respect of the previous year	**–**	**(255)**	**(255)**
Dividends approved in respect of the current year	**–**	**(80)**	**(80)**
At 31 December 2018	**4,975**	**3,836**	**8,811**

25. Reserves (HK$m) continued

(b) Nature and purpose of reserves

Capital reserve

The company's capital reserve represents the profit recognised on the intra-group transfer of properties as a result of the corporate restructuring in 1991.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges in note 34(d).

Exchange and other reserves

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 34(t). Other reserves mainly comprise other comprehensive income recognised for the remeasurement of net defined benefit retirement obligations and the surplus on revaluation of land and building held for own use transfer to investment properties. The relevant accounting policies for which are set out in note 34(p) and 34(f) respectively.

(c) Reserves available for distribution

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was HK$3,836 million (2017: HK$3,531 million). After the end of the reporting period, the Directors proposed a final dividend of 16 HK cents per share (2017: 16 HK cents per share), amounting to HK$258 million (2017: HK$255 million). This dividend has not been recognised as a liability at the end of the reporting period.

(d) Capital management

The group takes a long term view of its business and consequently the planning of the use of capital. The group's primary objectives when managing its capital are to safeguard the group's ability to continue as a going concern, to secure access to finance at a reasonable cost relative to risk and to provide an appropriate return to shareholders. In so doing, it seeks to achieve an appropriate balance between shareholders' equity and external debt by taking into account the cost of capital and the efficiency of using the capital.

The group regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure its obligations and commitments are met. A proactive approach is taken to forecasting future funding requirements and, when funds are needed, market conditions are evaluated to determine the best form of finance to be secured.

In addition, the group maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to meet its financial obligations and to finance its growth and development.

Notes to the Financial Statements

25. Reserves (HK$m) continued

(d) Capital management continued

The group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings (defined as interest-bearing borrowings less cash at bank and in hand) to the total of net borrowings and equity attributable to shareholders of the company. The group's share of net borrowings and equities of the non-consolidated entities (such as the associates and joint ventures), if any, are also taken into account. The calculations of gearing ratios before and after the non-consolidated entities as at 31 December 2018 and 2017 are as follows:

	2018	2017
Interest-bearing borrowings	**7,095**	7,443
Less: Cash at banks and in hand	**(1,178)**	(1,922)
Net borrowings per the statement of financial position	**5,917**	5,521
Share of net borrowings of non-consolidated entities	**1,109**	1,239
Net borrowings adjusted for non-consolidated entities	**7,026**	6,760
Equity attributable to shareholders of the company per the consolidated statement of financial position	**38,941**	38,175
Equity plus net borrowings per the consolidated statement of financial position	**44,858**	43,696
Equity plus net borrowings adjusted for non-consolidated entities	**45,967**	44,935
Gearing ratio based on the consolidated financial statements	**13%**	13%
Gearing ratio adjusted for non-consolidated entities	**15%**	15%

During 2018, the group continued to operate within its long term treasury management guidelines. Operating and investment decisions are made by making reference to the group's long term cash flow forecasts to ensure that the guidelines are followed.

The group is subject to covenants imposed by the lenders of the interest-bearing borrowings based on the group's borrowings and other indebtedness, as well as the amount of equity attributable to shareholders of the company. The group complied with the imposed loan covenants on capital requirements for the years ended 31 December 2018 and 2017. Except for the above, neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

26. Employee Retirement Benefits (HK$m)

(a) Defined benefit retirement obligations

The group maintains several defined benefit retirement plans covering 498 employees (2017: 550 employees) of Quail Lodge, Inc. (QLI), a US subsidiary of the company and Manila Peninsula Hotel, Inc. (MPHI), a Philippine subsidiary of the company. Such plans are administered by independent trustees with the assets, if any, held separately from those of the group.

QLI has retirement compensation agreements with certain employees which provide, among other things, that during the employees' lifetime after retirement, QLI will pay such employees retirement compensation equal to 30% of the average salaries of the final three years of employment.

QLI has not funded the above retirement compensation arrangement and the liability in respect of its obligations is fully recognised in its financial statements at each reporting period, based on independent actuarial valuation prepared by qualified staff of Bartel Associates, LLC, who are members of the American Academy of Actuaries, using the projected unit credit method as at 31 December 2018.

In addition, MPHI operates a non-contributory defined benefit retirement plan which covers all its employees. The plan is administered by an independent trustee with the assets held separately from those of MPHI.

The above plan is funded by contributions from MPHI in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The latest independent actuarial valuation of the plan was prepared by qualified staff of Actuarial Advisers, Inc., who are members of the Actuarial Society of the Philippines, using the projected unit credit method as at 31 December 2018. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 48% (2017: 77%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2018.

The amounts recognised in the group's consolidated statement of financial position are as follows:

	2018	2017
Present value of wholly or partly funded obligations	**34**	45
Fair value of plan assets	**(12)**	(28)
	22	17

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The group expects to pay HK$4 million (2018: HK$4 million) in contributions to defined benefit retirement plans in 2019.

Notes to the Financial Statements

26. Employee Retirement Benefits (HK$m) continued

(a) Defined benefit retirement obligations continued

Plan assets consist of the following:

	2018	2017
Debt instruments	**7**	20
Investment funds	**4**	3
Equity investment and others	**1**	5
	12	28

The group's assets – liabilities matching objective is to match maturities of the plan assets to the retirement benefit obligations as they fall due.

Movements in the present value of the defined benefit obligations:

	2018	2017
At 1 January	**45**	46
Exchange adjustments	**(1)**	1
Benefits paid by the plans	**(19)**	(7)
Current service cost	**3**	3
Interest cost	**3**	2
Actuarial loss	**3**	–
At 31 December	**34**	45

Movements in plan assets:

	2018	2017
At 1 January	**28**	30
Exchange adjustments	**(1)**	1
Group's contributions paid to the plans	**4**	4
Benefits paid by the plans	**(19)**	(7)
Interest income	**2**	1
Return on plan assets, excluding interest income	**(2)**	(1)
At 31 December	**12**	28

26. Employee Retirement Benefits (HK$m) continued

(a) Defined benefit retirement obligations continued

Amounts recognised in "staff costs and related expenses" in the consolidated statement of profit or loss and statement of comprehensive income are as follows:

	2018	2017
Consolidated statement of profit or loss		
Current service cost	**3**	3
Interest cost	**3**	2
Interest income	**(2)**	(1)
	4	4
Consolidated statement of comprehensive income		
Actuarial loss on:		
Remeasurement of plan assets	**2**	1
Remeasurement of defined benefit obligations	**3**	–
	5	1

The principal actuarial assumptions used as at 31 December 2018 are as follows:

	2018	2017
Discount rate	**from 2.75% to 7.73%**	from 2.5% to 6.5%
Future salary increases	**4%**	4%

The analysis below shows how the defined benefit obligations as at 31 December 2018 would have increased/(decreased) as a result of changes in the significant actuarial assumptions:

	Defined benefit obligations	
	Increase	Decrease
Discount rate (0.5% change)	–	–
Future salary increases (1% change)	1	(1)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

Notes to the Financial Statements

26. Employee Retirement Benefits (HK$m) continued

(b) Defined contribution retirement plans

The group has a defined contribution retirement plan covering 1,583 employees (2017: 1,554 employees), most of whom are in Hong Kong. The defined contribution retirement plan is formally established under an independent trust with the assets of the funds held separately from those of the group by an independent trustee. The plan is registered under the Occupational Retirement Schemes Ordinance in Hong Kong and is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation. Employees covered by this plan are not required to make contributions and funds contributed by employers are fully vested with their employees immediately. The average contribution rate against employees' relevant income for the year was 13% (2017: 13%).

In addition, the group participates in the Mandatory Provident Fund Scheme (the MPF Scheme) under the Mandatory Provident Fund Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, which is operated by an independent service provider to cover 210 employees (2017: 210 employees) in Hong Kong who are not covered by the above defined contribution retirement plan. The MPF Scheme is a defined contribution retirement plan administrated by independent trustees. Contributions at a fixed rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 per employee, are made to the Scheme by both the employer and the employee and vest immediately.

The group also operates several defined contribution retirement plans, including union pension schemes for its overseas subsidiaries covering 2,202 employees (2017: 2,219 employees) in other Asian countries and the United States of America, in accordance with the respective applicable labour regulations.

Total contributions to all of the above defined contribution retirement plans made by the group amounted to HK$127 million (2017: HK$116 million) and was charged to the consolidated statement of profit or loss during the year.

27. Financial risk management and fair values

The group is exposed to foreign exchange, interest rate, liquidity and credit risks in its normal course of business. The group's exposure to these risks, as well as various techniques and derivative financial instruments used to manage these risks, are described below.

(a) Foreign exchange risk

The group manages its foreign exchange exposure with a view to protecting its net assets and profitability against adverse fluctuations in exchange rates. The company reports its results in Hong Kong Dollars. In the light of the Hong Kong Dollar peg, the group does not hedge United States Dollar exposures and it aims to preserve its value in Hong Kong Dollar and/or United States Dollar terms.

Foreign exchange risk may arise in sale and purchase transactions which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Euros, Great Britain Pounds, Renminbi, Japanese Yen, Thai Baht and Philippine Pesos.

27. Financial Risk Management and Fair Values continued

(a) Foreign exchange risk continued

Hedge of foreign exchange risk in forecast transactions

In respect of committed future transactions and highly probable forecast transactions, the group usually hedges its estimated foreign currency transaction exposures if the foreign exchange risk of these exposures is considered to be significant. The group mainly uses forward exchange contracts to hedge this type of foreign exchange risk and classifies these contracts as cash flow hedges.

The group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instruments and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows.

The main source of ineffectiveness in these hedging relationships are:

(i) the effect of the counterparty's and the group's own credit risk on the fair value of the forward exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and

(ii) changes in the timing of the hedging transactions.

The following table details the forward exchange contracts that have been designated as cash flow hedges of the group's highly probable forecast transactions at the end of the reporting period:

	2018		2017	
	(million)	**(million)**	(million)	(million)
Notional amount				
– Buy US Dollars with GBP	**USD4**	**GBP3**	–	–
– Buy EUR with GBP	**EUR15**	**GBP13**	–	–

	2018	2017
	(HK$m)	(HK$m)
Carrying amount		
– Asset	**2**	–

The forward exchange contracts have a maturity of less than one year from the reporting date and have an average exchange rate of 0.8930 and 0.7716 between EUR and GBP and between US dollar and GBP respectively.

Notes to the Financial Statements

27. Financial Risk Management and Fair Values continued

(a) Foreign exchange risk continued

Hedge of foreign exchange risk in forecast transactions continued

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2018	2017
Balance at 1 January	**–**	–
Effective portion of the cash flow hedge recognised in other comprehensive income	**2**	–
Related tax	**–**	–
Balance at 31 December	**2**	–
Hedge ineffectiveness recognised in profit or loss	**–**	–
Change in fair value of the forward exchange contracts during the year	**2**	–
Effective portion of the cash flow hedge recognised in other comprehensive income	**2**	–

Recognised assets and liabilities

The group has foreign currency monetary assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate. Exchange differences arising on settling or translating these foreign currency monetary items at rates different from those at dates of transactions giving rise to these monetary items are recognised in the statement of profit or loss.

The group usually hedges most of the foreign exchange exposures arising from significant foreign currency monetary assets and liabilities, including foreign currency borrowings. The group mainly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge this type of foreign exchange risk and classifies these derivative financial instruments as cash flow hedges or at fair value through profit or loss, depending on whether the future foreign currency cash flows are fixed or not.

Changes in the fair value of these cash flow hedges or derivative financial instruments at fair value through profit or loss are recognised in the hedging reserve or the statement of profit or loss respectively.

All of the group's borrowings are denominated in the functional currency of the operations to which they relate. Given this, it is not expected that there will be any significant currency risk associated with the group's borrowings.

Net investment in foreign subsidiaries

At 31 December 2018 and 2017, the group did not hedge any net investment in foreign subsidiaries.

27. Financial Risk Management and Fair Values continued

(a) Foreign exchange risk continued

Exposure to foreign exchange risk

The following table details the group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The amounts of the exposure are shown in original currency. Differences resulting from the translation of the financial statements of the foreign operations into the group's presentation currency and exposures arising from inter-company balances which are denominated in a foreign currency and is considered to be in the nature of investment in the subsidiary, joint ventures and associates are excluded.

	2018				2017		
(million)	**United States Dollars**	**Euro**	**Reminbi**	**Philippine Pesos**	United States Dollars	Euro	Philippine Pesos
Trade and other receivables	**32**	**1**	**17**	**–**	28	2	–
Cash at banks and in hand	**11**	**4**	**–**	**5**	43	–	5
Trade and other payables	**(53)**	**–**	**–**	**–**	(41)	–	–
Net exposure arising from recognised assets and liabilities	**(10)**	**5**	**17**	**5**	30	2	5

Based on the sensitivity analysis performed as at 31 December 2018, it was estimated that an increase/decrease of 10% in foreign exchange rate in respect of financial instruments denominated in currency other than the functional currencies, with all other variables held constant, would not have significant impact on the group's post-tax profits and other components of equity.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group's interest rate risk arises primarily from borrowings. Borrowings bearing floating interest rates that are reset on a regular basis as market interest rates change expose the group to cash flow interest rate risk.

At 31 December 2018, the group had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$3,287 million (2017: HK$1,719 million) maturing over the next five years (2017: three years). Changes in fair value of these swaps accounted for as cash flow hedges are recognised in the hedging reserve. The group locked in the following ranges of fixed rates by the swaps at 31 December 2018:

	31 December 2018	31 December 2017
Hong Kong Dollars	**–**	1.5% to 1.6%
Japanese Yen	**0.1%**	0.1%
Euros	**0.4%**	1.2%
Pounds	**1.1% to 1.2%**	–

Notes to the Financial Statements

27. Financial risk management and fair values continued

(b) Interest rate risk continued

The net fair value of all the swaps entered into by the group at 31 December 2018 was as follows (HK$m):

	2018	2017
Cash flow hedges (note 17)	**(7)**	(4)

The group seeks to hedge the benchmark interest rate component only and applies a hedge ratio of 1:1. The existence of an economic relationship between the interest rate swaps and the variable rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, interest repricing dates, maturity dates, interest payment and/or receipt dates, the notional amounts of the swaps and the outstanding principal amounts of the loans. The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the group's own credit risk on the fair value of the swaps which is not reflected in the fair value of the hedged cash flows attributable to the change in interest rates.

The following table provides a reconciliation of the hedging reserve in respect of interest rate risk and shows the effectiveness of the hedging relationships:

	2018	2017
Balance at 1 January	**(15)**	(27)
Effective portion of the cash flow hedge recognised in other comprehensive income	**(3)**	12
Related tax	**–**	–
Balance at 31 December	**(18)**	(15)
Change in fair value of the interest rate swap during the year	**(9)**	(8)
Transfer from equity to profit or loss	**6**	20
Effective portion of the cash flow hedge recognised in other comprehensive income	**(3)**	12

The following table details the profile of the group's borrowings at the end of the reporting period, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments.

	2018		2017	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**1.9%**	**5,213**	2.0%	4,844
Floating rate borrowings:				
Bank loans	**2.6%**	**1,882**	2.3%	2,599
Total interest-bearing borrowings		**7,095**		7,443
Fixed rate borrowings as a percentage of total borrowings		**73%**		65%

27. Financial risk management and fair values continued

(b) Interest rate risk continued

On the other hand, as at 31 December 2018 and 2017, the group had short term bank deposits. Since these deposits are placed for short term liquidity purposes, the group has no intention to lock in their interest rates for the long term. The interest rate profile of these bank deposits at the end of the reporting period is summarised as follows:

	2018		2017	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Floating rate instruments:				
Bank deposits	**1.8%**	**924**	1.2%	1,658

Sensitivity analysis

The following table indicates the approximate changes in the group's profit after taxation (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the interest rates, with all other variables held constant, to which the group has significant exposure at the end of the reporting period. As at 31 December 2018 and 2017, the effects were attributable to changes in interest income and expense relating to floating rate financial instruments and gains or losses resulting from changes in the fair value of derivative financial instruments.

	2018 Increase/(decrease) in			2017 Increase/(decrease) in		
	Interest rates (basis points)	**Profit after taxation and retained profits (HK$m)**	**Other components of equity (HK$m)**	Interest rates (basis points)	Profit after taxation and retained profits (HK$m)	Other components of equity (HK$m)
Renminbi	**100**	**1**	**–**	100	1	–
	(100)	**(1)**	**–**	(100)	(1)	–
Thai Baht	**100**	**(3)**	**–**	100	(3)	–
	(100)	**3**	**–**	(100)	3	–
Japanese Yen	**50**	**(1)**	**1**	50	(1)	4
	(50)	**1**	**–**	(50)	1	–
HK Dollars	**100**	**5**	**–**	100	(2)	8
	(100)	**(5)**	**–**	(100)	2	(8)
US Dollars	**100**	**1**	**–**	100	1	–
	(100)	**(1)**	**–**	(100)	(1)	–
Euros	**100**	**(1)**	**11**	100	(1)	2
	(100)	**–**	**(5)**	(100)	1	(2)
GBP	**100**	**–**	**32**	100	(2)	–
	(100)	**–**	**(27)**	(100)	2	–

The sensitivity analysis above indicates the instantaneous change in the group's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen, assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the group and which expose the group to fair value interest rate risk at the end of the reporting period. In respect of exposure to cash flow interest rate risk arising from the floating rate non-derivative financial instruments (which include bank borrowings and deposits) held by the group at the end of the reporting period, the impact on the group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such changes in interest rates. The analysis has been performed on the same basis as for 2017.

Notes to the Financial Statements

27. Financial risk management and fair values continued

(c) Liquidity risk

Borrowings and cash management, including short term investment of surplus cash, are arranged centrally to cover expected cash requirements. The group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments in the short and longer term.

At 31 December 2018, total available borrowing facilities amounted to HK$14,556 million (2017: HK$9,739 million), of which HK$7,185 million (2017: HK$7,478 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$6,957 million (2017: HK$1,844 million).

The following table details the remaining contractual maturities at the end of the reporting period of the group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the group can be required to pay:

	2018						2017					
		Contractual undiscounted cash outflow/(inflow)						Contractual undiscounted cash outflow/(inflow)				
(HK$m)	**Statement of financial position carrying amount**	**Total**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Trade creditors	**152**	**152**	**152**	**-**	**-**	**-**	140	140	140	–	–	–
Interest payable	**8**	**8**	**8**	**-**	**-**	**-**	9	9	9	–	–	–
Accruals for property, plant and equipment	**195**	**195**	**195**	**-**	**-**	**-**	172	172	172	–	–	–
Tenants' deposits	**367**	**367**	**216**	**55**	**84**	**12**	360	360	236	43	75	6
Guest deposits and gift vouchers	**158**	**158**	**158**	**-**	**-**	**-**	155	155	155	–	–	–
Golf membership deposits	**84**	**84**	**-**	**-**	**-**	**84**	89	89	–	–	–	89
Other payables	**729**	**729**	**712**	**-**	**-**	**17**	729	729	729	–	–	–
Interest-bearing borrowings	**7,095**	**7,609**	**519**	**963**	**5,767**	**360**	7,443	7,748	3,512	551	3,685	–
Interest rate swaps (net settled)	**7**	**8**	**6**	**2**	**-**	**-**	4	6	6	–	–	–
Forwarded foreign exchange contracts held as cash flow hedging instruments												
– outflow	**-**	**164**	**164**	**-**	**-**	**-**	–	–	–	–	–	–
– inflow	**(2)**	**(166)**	**(166)**	**-**	**-**	**-**	–	–	–	–	–	–
Current taxation	**26**	**26**	**26**	**-**	**-**	**-**	41	41	41	–	–	–
	8,819	**9,334**	**1,990**	**1,020**	**5,851**	**473**	9,142	9,449	5,000	594	3,760	95

27. Financial risk management and fair values continued

(d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group's credit risk is primarily attributable to bank deposits, trade and other receivables and derivative financial instruments and is monitored on an ongoing basis.

To minimise credit exposure for bank deposits and derivative financial instruments, the group transacts with financial institutions with good credit ratings and diversifies its exposure to various financial institutions in accordance with group guidelines. All bank deposits are subject to a single counterparty exposure limit and a composite counterparty exposure limit. The credit ratings of the financial institutions are closely monitored throughout the lives of the transactions.

At 31 December 2018, cash at banks and in hand amounted to HK$1,178 million (2017: HK$1,922 million), of which HK$753 million (2017: HK$1,393 million) was placed as time deposits with financial institutions with credit ratings of no less than BBB (issued by Standard & Poor's Rating Services (S&P)) or Baa2 (issued by Moody's Investors Services, Inc.(Moody's)) and there was no significant concentration risk to any single counterparty.

For derivative financial instruments, the credit ratings of the financial institutions were no less than A (S&P) or A1 (Moody's).

The group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. Credit evaluations are performed for all significant customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Credit limits are set for customers based on their credit worthiness and past history. Trade receivables are normally due within 30 days from the date of billing. In respect of the group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. Other than this, as such, the group normally does not obtain collateral from its customers. The ageing of trade debtors at 31 December 2018 is summarised in note 20. The expected credit losses for these balances were not material at 31 December 2018, therefore no loss allowance was provided at 31 December 2018.

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. No impairment is considered necessary for any of the trade debtors including those that are past due as they relate to a wide range of independent customers that have a good track record with the group, with no recent history of default and are considered by the management to be fully recoverable.

The group's exposure to credit risk is influenced mainly by individual characteristics of each customer rather than the industry or country in which the customers operate; therefore, it is considered that there is no concentration of credit risk as the group has no significant exposure to individual customers given the large number of customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including the derivative financial instruments, in the consolidated statement of financial position after deducting any impairment allowance. The group does not provide any other guarantee which would expose the group to any material credit risk.

Notes to the Financial Statements

27. Financial risk management and fair values continued

(e) Fair values

(i) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* requires disclosure of the fair value of the group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

All derivative financial instruments carried at fair value are categorised as falling under Level 2 of the fair value hierarchy.

(ii) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2018. Advances to the joint venture are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values. The group has no intention of disposing these loans.

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Derivative financial instruments

Forward foreign exchange contracts and foreign exchange swaps are either marked to market using listed market prices, or by discounting the contractual forward price and deducting the current spot rate. The fair values of interest rate swaps and cross currency interest rate swaps are the estimated amount that the group would receive or pay to terminate the swaps at the end of the reporting period, taking into account current interest rates, foreign exchange rates and the current creditworthiness of the swap counterparties.

When discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

27. Financial risk management and fair values continued

(f) Estimation of fair values continued

The group used the following discount rates for determining fair value of derivative financial instruments.

	31 December 2018	31 December 2017
Hong Kong Dollars	**–**	1.2% to 1.4%
Japanese Yen	**– 0.1%**	–0.1% to 0%
Euros	**–0.4% to 0%**	–0.3%
Pounds	**0.7% to 0.8%**	–

28. Commitments (HK$m)

(a) Capital commitments outstanding as at 31 December 2018 not provided for in the financial statements were as follows:

	2018			2017		
	Contracted for	**Authorised but not contracted for**	**Total**	Contracted for	Authorised but not contracted for	Total
Capital commitments in respect of existing properties and new projects	**1,799**	**5,805**	**7,604**	1,616	7,363	8,979
The group's share of capital commitments of joint ventures and associates	**429**	**609**	**1,038**	525	649	1,174
	2,228	**6,414**	**8,642**	2,141	8,012	10,153

The group's capital commitments include the development costs to be incurred for The Peninsula London and The Peninsula Yangon projects as well as the capital expenditure for the major upgrade project to be undertaken by the Peak Tram.

The group's share of development cost in respect of The Peninsula Istanbul is included in the share of capital commitments of joint ventures.

Notes to the Financial Statements

28. Commitments (HK$m) continued

(b) At 31 December 2018, the total future minimum lease amounts under non-cancellable operating leases of the group in respect of land and buildings are as follows:

	Amounts receivable		Amounts payable	
	2018	2017	**2018**	2017
Within one year	**(945)**	(866)	**134**	150
After one year but within five years	**(1,266)**	(1,086)	**569**	522
After five years	**(706)**	(812)	**12,919**	13,349
	(2,917)	(2,764)	**13,622**	14,021

The group's future minimum lease payable under non-cancellable operating leases after five years mainly relate to the undiscounted lease liabilities in respect of its hotels in Tokyo and New York, which have remaining lease terms of 67 years and 60 years respectively, as well as the undiscounted fixed rent payable for 140 years from January 2022 in respect of the development project in London.

In addition, the group is the lessee in respect of a number of other properties under operating leases. These leases typically run for an initial period of two to four years, with an option to renew the lease upon expiry when all terms are renegotiated. None of these leases include contingent rentals.

29. Contingent liabilities (HK$m)

The Directors consider there being no material contingent liabilities for the group at 31 December 2018 and 2017.

30. Material related party transactions

Other than the Directors' remuneration and the loans advanced to an associate as disclosed in note 15, material related party transactions are set out as follows:

(a) Under two three-year tenancy agreements which commenced on 1 April 2016, a wholly owned subsidiary of the company, HSH Management Services Limited (HMS), leased the 4th, 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of HK$1,775,000 per month plus a monthly service charge of HK$231,702 from Kadoorie Estates Limited (KEL), which is the agent of the registered owner which is controlled by one of the substantial shareholders of the company. With effect from 1 January 2018, the monthly service charges for the 4th, 7th and 8th floors of St. George's Building were revised to HK$259,909.

The rent and service charges incurred in 2018 amounted to HK$24 million (2017: HK$24 million). These tenancy agreements fall under the Listing Rules as continuing connected transactions. The company has complied with the disclosure requirements governing continuing connected transaction under the Listing Rules. Further details of these continuing connected transactions are disclosed in the Directors' Report.

30. Material related party transactions continued

(b) Unsecured and interest free shareholder's loans amounting to US$66.85 million (HK$521 million) (2017: US$66.85 million (HK$521 million)) were granted by Peninsula International Investment Holdings Limited (PIIHL), a wholly owned subsidiary of the company, to the holding company of The Peninsula Shanghai Waitan Hotel Company Limited (PSW), a foreign owned enterprise incorporated in the People's Republic of China, of which the group has a 50% indirect interest. PSW is engaged in the operation of The Peninsula Shanghai Complex. As at 31 December 2018, shareholder's loans amounting to US$58.75 million (HK$458 million) (2017: US$58.75 million (HK$458 million)) had been contributed as capital of PSW.

In addition, pursuant to a tripartite entrustment loan agreement dated 12 December 2011 entered into among The Palace Hotel Co., Ltd. (TPH), a sino-foreign co-operative joint venture established in the People's Republic of China, which holds a 100% interest in The Peninsula Beijing, PSW and a PRC branch of an international bank (the agent bank), entrustment loans totalling RMB150 million were on-lent by TPH to PSW via the agent bank. As at 31 December 2018, the balance of entrustment loans amounted to RMB50 million (HK$57 million) (2017: RMB50 million (HK$60 million)). The remaining balance of entrustment loans bears an annual interest of 3.3% and is repayable on 14 June 2019. The interest was fixed by reference to the deposit rate published by The People's Bank of China on the day on which the draw down was made plus a margin of 200 basis points.

(c) The company owns a 70% indirect interest in Peninsula Yangon Holdings Pte. Limited (PYH), a company incorporated in Singapore, which in turn holds a 100% direct interest in Peninsula Yangon Limited (PYL). PYL is incorporated in Myanmar and is engaged in the development and future operation of The Peninsula Yangon. As at 31 December 2018, unsecured and interest-free loans amounting to US$18 million (HK$140 million) (2017: US$14 million (HK$112 million)) were advanced to PYH by Yoma Strategic Investments Ltd. and First Myanmar Investment Co., Ltd., the 30% non-controlling shareholders of PYH. Such loans were fully injected by PYH into PYL to fund the development of The Peninsula Yangon.

31. Non-adjusting post reporting period events

After the end of the reporting period, the Directors proposed a final dividend, the details of which are disclosed in note 10.

32. Key sources of estimation uncertainty

Notes 26(a) and 27 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Valuation of investment properties

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed semi-annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential. The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

(b) Estimated useful lives of other properties, plant and equipment

The group estimates the useful lives of its other properties, plant and equipment based on the periods over which the assets are expected to be available for use. The group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes as well as environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of properties, plant and equipment would increase depreciation charges and decrease non-current assets.

Notes to the Financial Statements

32. Key sources of estimation uncertainty continued

(c) Asset impairment

The group assesses the impairment of assets in accordance with the accounting policy set out in note 34(i). The factors that the group considers important in identifying indications of impairment and in assessing the impairment include the following:

- significant under-performance relative to expected historical or projected future operating results; and
- significant negative industry or economic trends.

(d) Deferred tax assets

The group reviews the carrying amounts of deferred taxes at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. However, there is no assurance that the group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised.

33. Investment in subsidiaries

The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated.

Company name	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
The Peninsula Hotel Limited	Hong Kong	2 shares	100%	Hotel investment
The Repulse Bay Apartments Limited	Hong Kong	2 shares	100%	Property investment
The Repulse Bay Company, Limited	Hong Kong	2 shares	100%	Property investment
The Peak Tower Limited	Hong Kong	2 shares	100%	Property investment
Peak Tramways Company, Limited	Hong Kong	450,000 shares	100%	Tramway operation
St. John's Building Limited	Hong Kong	2 shares	100%	Property investment
Peninsula Merchandising Limited	Hong Kong	2 shares	100%	Wholesaling and retailing of merchandise
Tai Pan Laundry & Dry Cleaning Services, Limited	Hong Kong	5,000,000 shares	100%	Laundry and dry cleaning services
HSH Financial Services Limited	Hong Kong	1 share	100%	Lending and borrowing of funds
Peninsula Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares	100%	Club management
HSH Management Services Limited	Hong Kong	10,000 shares	100%	Management and marketing services
Peninsula New York Hotel LLC	United States of America	Contributed capital of US$323,500,000	100%	Hotel investment
Peninsula Chicago LLC	United States of America	Contributed capital of US$57,038,089	100%	Hotel investment
Quail Lodge, Inc.	United States of America	10,652 shares of US$100 each	100%	Golf club, resort and property investment

33. Investment in subsidiaries continued

Company name	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
Peninsula of Tokyo Limited	Japan	200 shares of JPY50,000 each	100%	Hotel investment
The Palace Hotel Co., Ltd.	People's Republic of China	Registered capital of US$161,921,686	76.6%**	Hotel investment
Manila Peninsula Hotel, Inc.	The Philippines	111,840,386 shares of Pesos 10 each	77.36%	Hotel investment
Siam Chaophraya Holdings Company Limited	Thailand	250,000 ordinary shares of THB2,000 each	50%	Hotel investment
Town and Country Sport Club Company Limited	Thailand	1,250,000 ordinary shares of THB100 each Δ	50%	Golf club and property investment
International Burotel Company Limited	Vietnam	Registered capital of US$6,866,667	70%#	Property investment
Le 21 Avenue Kléber SNC	France	1,801,000 shares of EUR1 each	100%	Property investment
Peninsula London, LP	United Kingdom	Contributed capital of GBP1,000	100%	Property investment and hotel development
Peninsula Yangon Limited	Myanmar	43,696,426 shares of US$1 each	70%	Hotel investment

* Except for HSH Financial Services Limited, all subsidiaries are indirectly held.

** The Palace Hotel Co., Ltd. is a sino-foreign co-operative joint venture with a reversionary interest to the PRC party at the end of the joint venture period.

The group owns 50% of the economic interest of International Burotel Company Limited with a reversionary interest to the Vietnam partner at the end of the joint venture period.

Δ 5,000 shares are fully paid up and the remaining 1,245,000 shares are partially paid up at THB25 each.

The non-controlling interests in individual subsidiaries are considered immaterial to the group.

Notes to the Financial Statements

34. Significant accounting policies

(a) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the company and its subsidiaries (together referred to as the group) and the group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

i) investment properties (see note 34(f)); and

ii) derivative financial instruments (see note 34(d)).

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that may have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the company.

34. Significant accounting policies continued

(b) Subsidiaries and non-controlling interests continued

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 34(c)).

In the company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 34(i)), unless the investment is classified as held for sale.

(c) Associates and joint ventures

An associate is an entity in which the group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see note 34(i)). Any acquisition-date excess over costs, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the group's share of losses exceeds its interest in the associates or the joint ventures, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the group's interest is the carrying amount of the investment under the equity method, together with the any other long-term interests that, in substance, form part of the group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of a financial asset.

Notes to the Financial Statements

34. Significant accounting policies continued

(d) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify as cash flow hedge accounting.

The group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and variable rate borrowings (cash flow hedges). The hedge accounting policy applied from 1 January 2018 is similar to that applicable prior to 1 January 2018. However, under the new hedge accounting policy, depending on the complexity of the hedge, the group applies a more qualitative approach to assessing hedge effectiveness, and the assessment is always forward-looking.

Cash flow hedges

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss. The amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when a forecast sale occurs or interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

(e) Properties, plant and equipment

Hotel and other properties held for own use (including buildings held for own use which are situated on leasehold land classified as held under operating leases) and plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 34(i)).

The cost of self-constructed items of properties, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 34(u)).

34. Significant accounting policies continued

(e) Properties, plant and equipment continued

Depreciation is calculated to write off the cost of items of properties, plant and equipment, less their estimated residual values, if any, on a straight line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. The useful lives which have been adopted are summarised as follows:

- leasehold land classified as held under finance leases is depreciated over the unexpired term of lease
- hotel buildings — 75 to 150 years
- other buildings — 50 years
- golf courses — 100 years
- external wall finishes, windows, roofing and glazing works — 10 to 40 years
- major plant and machinery — 15 to 25 years
- furniture, fixtures and equipment — 3 to 20 years
- operating equipment — 3 to 5 years
- motor vehicles — 5 to 10 years

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

Where parts of an item of properties, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided on properties under development.

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 34(h)) to earn rental income and/or for capital appreciation. These include land held for currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the reporting date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 34(s).

Notes to the Financial Statements

34. Significant accounting policies continued

(f) Investment properties continued

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 34(h)) and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 34(h).

If a property occupied by the group as an owner-occupied property becomes an investment property, the group accounts for such property as described in note 34(e) up to the date of change in use, and any difference at the date between the carrying amount and the fair value of the property is accounted for as movements in the asset revaluation reserve. On disposal of a revalued assets, the relevant portion of the asset revaluation reserve realised in respect of previous valuation is transferred to retained profits as a movement in reserves.

(g) Hotel operating rights

Costs incurred for securing the group's rights to operate hotels are capitalised and are stated at cost less accumulated amortisation and impairment losses (see note 34(i)).

Amortisation of the operating rights is charged to profit or loss on a straight-line basis over the terms of the relevant operating periods.

(h) Leased assets

Classification of assets leased to the group

Assets that are held by the group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 34(f)); and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous lessee.

Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

34. Significant accounting policies continued

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

(A) Policy applicable from 1 January 2018

The group recognises a loss allowance for expected credit losses (ECLs) on the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables) and lease receivables.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

In measuring ECLs, the group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Notes to the Financial Statements

34. Significant accounting policies continued

(i) Credit losses and impairment of assets continued

(i) Credit losses from financial instruments and lease receivables continued

(A) Policy applicable from 1 January 2018 continued

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held). The group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Write-off policy

The gross carrying amount of a financial asset and lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

34. Significant accounting policies continued

(i) Credit losses and impairment of assets continued

(i) Credit losses from financial instruments and lease receivables continued

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at fair value through profit or loss (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only where there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

- For trade and other receivables and other financial assets carried at amortised cost, the impairment loss was 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. An impairment loss for trade and other receivables carried at amortised cost is calculated as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

Notes to the Financial Statements

34. Significant accounting policies continued

(i) Credit losses and impairment of assets continued

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the investments in associates and joint ventures accounted for under the equity method (see note 34(c)), other non-financial assets, investment in subsidiaries in the company's statement of financial position may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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 recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

An impairment loss is reversed to profit or loss if the recoverable amount of an asset, or the cash-generating unit to which it belongs, exceeds its carrying amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 34(i)).

(j) Inventories

Inventory are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

(k) Properties under development for sale

Property under development for sale comprises leasehold lands and construction-in-progress and is carried at the lower of cost and net realisable value. Properties under development for sale included in the current assets when it is expected to be realised or is intended for sale in the normal operating cycle.

34. Significant accounting policies continued

(l) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before the payment of that consideration is due. If revenue has been recognised before the group has unconditional right to receive consideration, the amount is presented as a contrast asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 34(i)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs using effective interest method. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost. Interest expense is recognised in accordance with the group's accounting policy for borrowing cost (see note 34(u)).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses in accordance with policy set out in note 34(i).

(p) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined benefit retirement plan obligations

The group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Notes to the Financial Statements

34. Significant accounting policies continued

(p) Employee benefits continued

Defined benefit retirement plan obligations continued

Service cost and net interest expense (income) on the net defined liability (asset) are recognised in profit or loss and allocated by nature as part of "staff costs and related expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in other reserves. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

Termination benefits

Termination benefits are recognised when and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities and are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

34. Significant accounting policies continued

(q) Income tax continued

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 34(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Onerous contracts

An onerous contract exists when the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

Notes to the Financial Statements

34. Significant accounting policies continued

(s) Revenue

Revenue is recognised when control over a product or service is transferred to the customer, or the leasee has the right to use the asset, at the amount of promised consideration to which the group is expected to be entitled, excluding those amounts collected on behalf of third parties. Further details of the group's revenue recognition policies are as follows:

Hotel and golf club operations

Revenue is recognised on a basis that reflects the timing, nature and value when the relevant services are transferred to the customer.

Sale of residential apartments

Revenue arising from the sale of residential apartments is recognised upon the completion of title transfer, which is the point in time when the customer has the ability to direct the use of the residential apartment and obtain substantially all of the remaining benefits of the residential apartment.

Sale of goods and wholesaling

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer takes possession of and accepts the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Interest income

Interest income is recognised as it accrues using the effective interest method.

Contract liabilities

A contract liability is recognised when the customer pays consideration before the group recognises the related revenue. Non-refundable golf membership deposits, gift vouchers and other deposits are recognised as contract liabilities in the group's financial statements. Non-refundable golf membership deposits are amortised as revenue in equal instalments over the duration of the membership. Other non-refundable deposits and gift vouchers sold are recognised as revenue when the conditions of forfeiture are met and when the gift vouchers are redeemed for goods or services respectively.

34. Significant accounting policies continued

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities and non-monetary assets and liabilities that are stated at fair values and are denominated in foreign currencies, are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to become ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

(1) A person, or a close member of that person's family, is related to the group if that person:

- i) has control or joint control over the group;
- ii) has significant influence over the group; or
- iii) is a member of the key management personnel of the group or the group's Parent.

Notes to the Financial Statements

34. Significant accounting policies continued

(v) Related parties continued

(2) An entity is related to the group if any of the following conditions applies:

i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

vi) The entity is controlled or jointly controlled by a person identified in (1).

vii) The entity identified in (1)(i) 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).

viii) 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 group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

35. Changes in accounting policies and disclosures

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the group. Of these, the following developments are relevant to the group's financial statements:

i) HKFRS 9, *Financial instruments*

ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 9 *Financial instruments*

HKFRS 9 sets out the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, hedge accounting and impairment of financial assets. HKFRS 9 replaces HKAS 39 *Financial Instruments: Recognition and Measurement*.

i) Classification and measurement
HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. These supersede HKAS 39's categories of held-to maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at fair value through profit or loss. The adoption of HKFRS 9 has not had a material impact on the results of the group.

ii) Impairment of financial assets
The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortised cost and contract assets. The financial assets held by the group that are subject to the new credit loss model include cash and cash equivalents, trade receivables, amounts and loans due from related parties and other receivables.

The group is required to revise the impairment methodology under HKFRS 9 for each of these classes of assets. The change in methodology did not have a material impact on the results of the group.

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 provides single revenue recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer.

The adoption of HKFRS 15 has resulted in a change in accounting policy for revenue, recognition associated with inventory disposals, such that revenue is recognised on transfer of control of the asset rather than the transfer of the significant risks and rewards associated with the asset. This change has not had a material impact on the revenue, profit and net assets reported in previous period.

The group has not applied any new standards or interpretations that are not yet effective for the current accounting year.

Notes to the Financial Statements

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the group:

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the group has identified the adoption of HKFRS 16 may have a significant impact on the consolidated financial statements and the details are set out below.

HKFRS 16, *Leases*

As disclosed in note 34(h), currently the group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the group's accounting as a lessee of leases for certain hotel properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease.

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 continued

HKFRS 16, *Leases* continued

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The group plans to elect to apply the full retrospective approach for the adoption of HKFRS 16 and will adjust the opening balance of equity at 1 January 2019 and restate the comparative information. As disclosed in note 28(b), at 31 December 2018 the group's future minimum lease payments under non-cancellable operating leases amounted to HK$13.6 billion, most of which is payable in more than 5 years after the reporting date. These minimum lease payments mainly relate to the undiscounted lease liabilities in respect of the group's hotels in Tokyo and New York with remaining lease term of 67 years and 60 years respectively as well as the undiscounted fixed rent payable for 140 years from January 2022 in respect of the development project in London.

Other than the recognition of lease liabilities and right-of-use assets, the group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material.