MAGNIFICENT HOTEL INVESTMENTS LIMITED

華大酒店投資有限公司

(Stock Code 股份代號: 201)

ANNUAL REPORT 2018

二零一八年年報

Contents

Corporate Information

Executive Directors
Mr. William Cheng Kai Man *(Chairman)*
Mr. Albert Hui Wing Ho
Madam Kimmy Lau Kam May
Madam Ng Yuet Ying
Madam Jennie Wong Kwai Fong
(Appointed on 22nd January, 2018)

Non-Executive Director
Madam Mabel Lui Fung Mei Yee

Independent Non-Executive Directors
Mr. Vincent Kwok Chi Sun
Mr. Chan Kim Fai
Mr. Lam Kwai Cheung

Company Secretary
Ms. Koo Ching Fan

Auditor
Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Solicitors
Withers
20th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Principal Bankers
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

Registered Office
3rd Floor, Shun Ho Tower
24-30 Ice House Street
Central, Hong Kong

Share Registrars
Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Tel: 2980 1333

Company's Website
www.magnificenthotelinv.com

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Magnificent Hotel Investments Limited (the "Company") will be held at 1st Floor, Grand View Hotel*, 88 Chun Yeung Street, North Point, Hong Kong on Monday, the 27th day of May 2019 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited Financial Statements for the year ended 31 December 2018 together with the Report of the Directors and the Independent Auditor's Report thereon.

2. To declare a final dividend.

3. (a) Each as a separate resolution, to re-elect the following retiring Directors:

   (i) To re-elect Mr. William CHENG Kai Man as Director;

   (ii) To re-elect Mr. CHAN Kim Fai as Director;

   (iii) To re-elect Mr. LAM Kwai Cheung as Director; and

   (b) To authorise the Board to fix the remuneration of the Directors.

4. To re-appoint Auditor and to authorise the Board to fix their remuneration.

5. As special business, to consider and, if thought fit, pass with or without modifications, the following resolution as an ordinary resolution of the Company:–

ORDINARY RESOLUTION

"**THAT**:

(a) subject to paragraph (c) of this resolution and pursuant to Sections 140 and 141 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares of the Company and to make agreements which would or might require shares to be allotted be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this resolution shall authorize the directors of the Company during the Relevant Period to make agreements which would or might require shares to be allotted after the end of the Relevant Period;

(c) the total number of shares allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, shall not exceed 10% of the total number of the shares of the Company in issue at the date of the passing of this resolution; and

(d) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and

(iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting.

By Order of the Board
Magnificent Hotel Investments Limited

KOO Ching Fan
Company Secretary

Hong Kong, 18 April 2019

* Grand View Hotel will be re-branded to **RAMADA HONG KONG GRAND VIEW** with effect from 3 May 2019.

Notes:

1. **Concerning resolution numbered 5 above, it is anticipated this general mandate to issue new shares will ONLY be used if the Hong Kong authorities or the Board consider that the Company's share liquidity in the stock market is not sufficient.**

2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and, on a poll, vote instead of him. A proxy need not be a member of the Company.

3. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the Company's Share Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.

4. To ascertain shareholders' eligibility to attend and vote at the meeting, the register of members of the Company will be closed from Tuesday, 21 May 2019 to Monday, 27 May 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 20 May 2019.

   Subject to the approval of the shareholders at the meeting for the proposed final dividend, the register of members of the Company will be closed from Wednesday, 12 June 2019 to Friday, 14 June 2019, both dates inclusive, during which period no transfer of shares of the Company will be registered, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 11 June 2019.

5. With regard to item no.3 of this notice, details of retiring Directors of the Company proposed for re-election are set out below.

   (a) Mr. William CHENG Kai Man

   Mr. William CHENG Kai Man, Executive Director, aged 57, was appointed as Director of the Company in 1987 and is the chairman of the nomination committee and a member of the remuneration committee of the Company. He is also an executive director of Shun Ho Property Investments Limited, the immediate holding company of the Company and Shun Ho Holdings Limited, the intermediate holding company of the Company. Shares of both companies are listed on the Stock Exchange. He has over 30 years' experience in construction, property investment and development and has over 20 years' experience in hotel management. He graduated in the U.K. and holds a bachelor's degree in civil engineering and a master's degree in structural engineering. He is a director of Trillion Resources Limited and Mercury Fast Limited, they are the Company's substantial shareholders. Save as disclosed above, Mr. William CHENG Kai Man did not hold any directorship in other listed public companies in the last three years or any position with the Company or other members of the Group.

   There is no service contract between Mr. William CHENG Kai Man and the Company. He has no fixed term of service with the Company and will be subject to the rotational retirement and re-election requirements at annual general meetings pursuant to the Articles of Association. The Director's fee payable to Mr. William CHENG Kai Man as executive Director is determined by Shareholders in annual general meeting. At the annual general meeting of the Company held on 24 May 2018, it was approved that the Director's fee for the year ended 31 December 2018 be determined by the Board. Mr. William CHENG Kai Man did not receive Director's fee. Other emoluments paid to Mr. William CHENG Kai Man for the year ended 31 December 2018 was determined at HK$7,027,000 with reference to his duties and responsibility with the Company, the Company's performance and comparable remuneration in the current market situation. Save as disclosed above, Mr. William CHENG Kai Man is and was not connected with any Directors, senior management or substantial or controlling Shareholders of the Company. As at the date of this notice, Mr. William CHENG Kai Man was deemed to have interest in 6,360,585,437 Shares within the meaning of Part XV of the SFO.

(b) Mr. CHAN Kim Fai

Mr. CHAN Kim Fai, Independent Non-Executive Director, aged 59, FCCA, CPA (Practising), was appointed to the Board in 2004. He is a member of audit committee, remuneration committee and nomination committee of the Company. He is also an independent non-executive director of Shun Ho Property Investment Limited, the immediate holding company of the Company, Shun Ho Holdings Limited, the intermediate holding company of the Company and EGL Holdings Company Limited. Shares of companies are listed on the Stock Exchange. He holds a bachelor's degree in science from The Chinese University of Hong Kong. He has extensive experience in accounting, corporate finance and financial management. He is a partner of Ivan Chan & Co, CPA. Save as disclosed above, Mr. CHAN Kim Fai did not hold any directorship in other listed public companies in the last three years or any position with the Company or other members of the Group.

There is a service contract between Mr. CHAN Kim Fai and the Company for the term of one year and he will be subject to the rotational retirement and re-election requirements at annual general meetings pursuant to the Articles of Association of the Company. The Director's fee payable to Mr. CHAN Kim Fai as independent non-executive Director is determined by Shareholders in annual general meeting of the Company. At the annual general meeting of the Company held on 24 May 2018, it was approved that the Director's fee for the year ended 31st December, 2018 be determined by the Board. The Director's fee paid to Mr. CHAN Kim Fai for the Company was determined at HK$50,000 for the year ended 31 December 2018 with reference to his duties and responsibility with the Company, the Company's performance and current market situation. As at the date of this notice, Mr. CHAN Kim Fai did not have any interest in the Shares within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. CHAN Kim Fai has served as independent non-executive Director more than 9 years and his re-election will be subject to a separate resolution to be approved by the Shareholders. As independent non-executive Director with in-depth understanding of the Company's operations and business and with professional qualifications, Mr. CHAN has expressed objective views and given independent guidance to the Company over the years, and he continues demonstrating a firm commitment to his role. The Board considers that the long service of Mr. CHAN would not affect his exercise of independent judgment and is satisfied that Mr. CHAN has the required character, integrity and experience to continue fulfilling the role of independent non-executive Director. The Board also considers the re-election of Mr. CHAN as independent non-executive Director is in the best interest of the Company and its Shareholders as a whole.

The nomination committee of the Company had assessed and reviewed the annual written confirmation of independence of each of the independent non-executive Directors for the year ended 31 December 2018 based on the independence criteria as set out in rule 3.13 of the Listing Rules, including Mr. CHAN Kim Fai. The nomination committee of the Company had considered and nominated the above retiring Director to the Board for it to propose to the Shareholders for re-election at the Annual General Meeting.

Save as disclosed above, Mr. CHAN does not have any relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders. The Board is also not aware of any circumstance that might influence Mr. CHAN in exercising independent judgment, and is satisfied that he has the required character, integrity, independence and experience to fulfill the role of an independent non-executive Director and he will be able to maintain an independent view of the Group's affairs. The Board considers him to be independent.

The Board is of the view that Mr. CHAN is beneficial to the Board with diversity of his comprehensive business experience that contributes to invaluable expertise, continuity and stability to the Board and the Company has benefited greatly from his contribution and valuable insights derived from his in-depth knowledge of the Company. The Board believes that he will continue to contribute effectively to the Board.

(c) Mr. LAM Kwai Cheung

Mr. LAM Kwai Cheung, Independent Non-Executive Director, aged 58, FCCA, CPA (Practising), was appointed to the Board in 2017. He is a member of audit committee and nomination committee of the Company. He is also an independent non-executive director of Shun Ho Property Investment Limited, the immediate holding company of the Company, Shun Ho Holdings Limited, the intermediate holding company of the Company. Shares of companies are listed on the Stock Exchange. He has extensive experience in accounting, auditing and financial management. He is a practitioner of Terry Lam & Co., CPA. Save as disclosed above, Mr. LAM Kwai Cheung did not hold any directorship in other listed public companies in the last three years or any position with the Company or other members of the Group.

There is a service contract between Mr. LAM Kwai Cheung and the Company for the term of one year and he will be subject to the rotational retirement and re-election requirements at annual general meetings pursuant to the Articles of Association of the Company. The Director's fee payable to Mr. LAM Kwai Cheung as independent non-executive Director is determined by Shareholders in annual general meeting of the Company. At the annual general meeting of the Company held on 24 May 2018, it was approved that the Director's fee for the year ended 31st December, 2018 be determined by the Board. The Director's fee paid to Mr. LAM Kwai Cheung for the Company was determined at HK$50,000 for the year ended 31 December 2018 with reference to his duties and responsibility with the Company, the Company's performance and current market situation. As at the date of this notice, Mr. LAM Kwai Cheung did not have any interest in the Shares within the meaning of Part XV of the Securities and Futures Ordinance.

The nomination committee of the Company had assessed and reviewed the annual written confirmation of independence of each of the independent non-executive Directors for the year ended 31 December 2018 based on the independence criteria as set out in rule 3.13 of the Listing Rules, including Mr. LAM Kwai Cheung. The nomination committee of the Company had considered and nominated the above retiring Director to the Board for it to propose to the Shareholders for re-election at the Annual General Meeting.

Save as disclosed above, Mr. LAM does not have any relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders. The Board is also not aware of any circumstance that might influence Mr. LAM in exercising independent judgment, and is satisfied that he has the required character, integrity, independence and experience to fulfill the role of an independent non-executive Director and he will be able to maintain an independent view of the Group's affairs. The Board considers him to be independent.

The Board is of the view that Mr. LAM is beneficial to the Board with diversity of his comprehensive business experience that contributes to invaluable expertise, continuity and stability to the Board and the Company has benefited greatly from his contribution and valuable insights derived from his in-depth knowledge of the Company. The Board believes that he will continue to contribute effectively to the Board.

Save as disclose above, Mr. William CHENG Kai Man, Mr. CHAN Kim Fai and Mr. LAM Kwai Cheung have confirmed that there are no other matters relating to their re-election that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to any of the requirements of rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

6. Concerning resolution numbered 5 above, the Board wishes to state that it has no immediate plans to issue any new shares in the Company. The ordinary resolution is being sought from members as a general mandate in compliance with the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. The Board will only consider to issue new Shares pursuant to the general mandate of this financial year of 2019, if the Hong Kong authorities or the Board consider that the Company's share liquidity in the stock market is not sufficient.

7. As at the date of this notice, the executive Directors of the Company are Mr. William CHENG Kai Man, Mr. Albert HUI Wing Ho, Ms. Kimmy LAU Kam May, Ms. NG Yuet Ying and Ms. Jennie WONG Kwai Fong; the non-executive Director of the Company is Madam Mabel LUI FUNG Mei Yee; and the independent non-executive Directors of the Company are Mr. Vincent KWOK Chi Sun, Mr. CHAN Kim Fai and Mr. LAM Kwai Cheung.

I present to the shareholders my report on the results and operations of Magnificent Hotel Investments Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st December, 2018.

RESULTS

The net profit after tax attributed to owners of the Company before revaluation gain of investment properties and depreciation of land, property and equipment for the year ended 31st December, 2018 was HK$241 million (2017: HK$202 million), increased by 19%.

DIVIDEND

The Board recommends the payment of a final dividend of HK0.652 cent per share for the year ended 31st December, 2018 (2017: HK0.627 cent per share) and will be payable on 27th June, 2019 to shareholders whose names appear on the register of members of the Company on 14th June, 2019. With reference to the announcement of 2018 interim results of the Company dated 17th August, 2018, shareholders are reminded that an interim dividend of HK0.080 cent per share for the six months ended 30th June, 2018 is also payable on 27th June, 2019 to shareholders whose names appear on the register of members of the Company on 14th June, 2019. Therefore, shareholders whose names appear on the register of members of the Company on 14th June, 2019 will receive dividends for a total sum of HK0.732 cent per share (2017: HK0.704 cent per share), increased by 4%.

For 2018, the annual dividend to be received by shareholders was equivalent to 4% annual yield of the closing price of the Company's share immediately before the date of results announcement.

BOOK CLOSURE

To ascertain shareholders' eligibility to attend and vote at the Annual General Meeting to be held on Monday, 27th May, 2019 ("AGM"), the register of members will be closed from Tuesday, 21st May, 2019 to Monday, 27th May, 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 20th May, 2019.

Subject to the approval of the shareholders at the AGM for the proposed final dividend, the register of members of the Company will be closed from Wednesday, 12th June, 2019 to Friday, 14th June, 2019, both dates inclusive, during which period no transfer of shares of the Company will be registered, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with Company's Share Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 11th June, 2019.

During the year, the Group continued with its major business in hotel investments, hotel management and property leasing.

The net profit after tax attributable to owners of the Company before revaluation gain of investment properties and depreciation of land, property and equipment for the year ended 31st December, 2018 was HK$241 million (2017: HK$202 million), increased by 19%. (See below Note a)

	2017 HK$'000	**2018** ***HK$'000***	Change
Revaluation profit of investment properties	50,200	**97,750**	+95%
Profit from operation of hotels	**153,687**	**194,187**	**+26%**
Properties rental income	31,418	**30,424**	-3%
Income from securities investments	4,464	**4,871**	+9%
Other income and expenses and gains and losses	2,974	**10,096**	+239%
	242,743	**337,328**	+39%
Administrative expenses	(38,989)	**(39,516)**	+1%
Exchange adjustment	(21,094)	**–**	N/A
Income tax expense	(30,486)	**(37,463)**	+23%
Profit after taxation	152,174	**260,349**	+71%
Less: Revaluation profit of investment properties	(50,200)	**(97,750)**	+95%
Add: Exchange adjustment	21,094	**–**	N/A
Add: Properties depreciation and release of prepaid lease payments for land	79,121	**78,525**	-1%
Net profit after tax before exchange adjustment, revaluation gain and depreciation of land, property and equipment	202,189	**241,124**	+19% *(Note a)*

Overall net profit increased by HK$39 million and reasons for its increment:

		HK$ million
1)	Increase in hotel net profit	33
2)	Increase in bank interest income	6
		39

PERFORMANCE

- For the year ended 31st December, 2018, the GROUP'S INCOME was mostly derived from the aggregate of income from operation of hotels and hotel properties rental income, which was analysed as follows:

Income

	2017 *HK$'000*	**2018** ***HK$'000***	Change	Reasoning
Income from operation of hotels	483,744	**540,040**	+12%	Increase in room rates
Hotel properties rental income	34,224	**34,762**	+2%	Rental income from UK hotel property
Dividend income	4,464	**4,871**	+9%	Increase in dividend received from stock investment
Other income	2,974	**10,136**	+241%	Increase in interest income from fixed deposits
Total	525,406	**589,809**	+12%	

The total income for the Group increased by 12% from HK$525 million to HK$590 million compared with last year.

HOTELS PERFORMANCES

During the year, the increase of overnight PRC visitors was 7.4%. According to Hong Kong Tourism Board in 2018, there were 29,262,701 total overnight visitors which increased by 4.9% as compared to 2017. The visitors segments were analysed as follows:

	No. of Visitors	**Change (%)**
Mainland China	19,901,957	+7.4
Other Asia markets	5,604,709	-1.6
Long haul markets	3,227,091	+2.8
New markets	528,944	+0.7

Ramada Hong Kong Harbour View

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/yr
Avg Room Occupancy (%)	100	100	100	100	100	100	100	100	99	100	100	99	100
Avg Room Rate (HK$)	599	653	643	795	502	524	584	682	596	891	929	877	690

- The **total income** was HK$113,247,000 (2017: HK$97,048,000), increased by **+17%.**
- The **net operating profit** was HK$59,070,000 (2017: HK$47,334,000), increased by **+25%.**
- Best Western Hotel Harbour View was re-branded to the higher class **RAMADA HONG KONG HARBOUR VIEW** in January 2019.

Best Western Grand Hotel

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/yr
Avg Room Occupancy (%)	99	100	99	99	99	99	99	100	100	99	99	99	99
Avg Room Rate (HK$)	719	744	731	843	571	622	662	780	680	974	999	1,043	781

- The **total income** was HK$117,884,000 (2017: HK$106,054,000), increased by **+11%**.
- The **net operating profit** was HK$67,913,000 (2017: HK$58,799,000), increased by **+16%.**

Best Western Plus Hotel Hong Kong

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/yr
Avg Room Occupancy (%)	100	100	100	100	100	100	100	100	100	99	100	100	100
Avg Room Rate (HK$)	687	691	712	820	558	599	624	732	660	950	988	956	748

- The **total income** was HK$93,235,000 (2017: HK$84,120,000), increased by **+11%**.
- The **net operating profit** was HK$48,385,000 (2017: HK$41,436,000), increased by **+17%**.

Best Western Hotel Causeway Bay

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/yr
Avg Room Occupancy (%)	100	100	100	100	100	100	100	100	100	100	100	100	100
Avg Room Rate (HK$)	669	707	738	864	530	556	593	702	610	972	1,022	929	741

- The **total income** was HK$72,108,000 (2017: HK$64,922,000), increased by **+11%**.
- The **net operating profit** was HK$36,083,000 (2017: HK$30,678,000), increased by **+18%**.
- The renovation of external wall of the hotel with modern LED signages is undergoing in 2019.

Best Western Plus Hotel Kowloon

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/yr
Avg Room Occupancy (%)	100	100	100	100	99	100	100	100	99	100	99	99	100
Avg Room Rate (HK$)	834	843	847	972	650	695	730	873	766	1,085	1,147	1,137	883

- The **total income** was HK$69,846,000 (2017: HK$62,436,000), increased by **+12%**.
- The **net operating profit** was HK$32,409,000 (2017: HK$27,679,000), increased by **+17%**.
- The adding of about 40 rooms to the Best Western Plus Hotel Kowloon was completed in 2018 and resulting in increasing monthly revenue over 20% up to the date of this report.

Grand City Hotel

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/yr
Avg Room Occupancy (%)	99	99	100	99	99	99	99	100	99	100	99	99	99
Avg Room Rate (HK$)	625	667	655	784	521	551	602	709	606	904	953	911	708

- The **total income** was HK$56,354,000 (2017: HK$49,031,000), increased by **+15%**.
- The **net operating profit** was HK$27,791,000 (2017: HK$21,949,000), increased by **+27%**.
- Swimming pool on terrace floor was added in 2018.

Magnificent International Hotel, Shanghai

2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Avg/yr
Avg Room Occupancy (%)	54	63	89	92	83	90	93	98	69	83	81	72	81
Avg Room Rate (HK$)	279	316	346	404	342	322	351	365	327	337	379	271	341

- The **total income** was HK$19,969,000 (2017: HK$22,857,000), decreased by -13%.
- The **net operating profit** was HK$5,875,000 (2017: HK$9,443,000), decreased by -38%.

Royal Scot Hotel, London

- The **total rental income** was GBP£3,137,487, equivalent to HK$32,159,000 (2017: GBP£3,137,487, equivalent to HK$31,500,000).
- As at 31st December, 2018, an independent third party valuation was GBP£95,000,000 (Acquisition cost GBP£70,000,000).
- Rental increment of about 11% should commence from June 2019.

COST

- **The SERVICE COSTS** of the Group for the year was HK$265.1 million (2017: HK$249.1 million), representing hotel operations cost, increased by 6% due to increase in salary expenditures.

Name of Hotel	2017	**2018**	Change
	HK$ million	***HK$ million***	
Ramada Hong Kong Harbour View	49.7	**54.1**	+8.9%
Best Western Grand Hotel	47.3	**50.0**	+5.7%
Best Western Plus Hotel Kowloon	34.7	**37.4**	+7.7%
Best Western Plus Hotel Hong Kong	42.7	**44.9**	+5.1%
Best Western Hotel Causeway Bay	34.2	**36.0**	+5.3%
Grand City Hotel	27.1	**28.6**	+5.5%
Magnificent International Hotel, Shanghai	13.4	**14.1**	+5.2%
Total amount for the year	249.1	**265.1**	+6.4%

Cost of sale of HK$4.4 million (2017: HK$4.6 million) was from cost of food and beverage.

During the year, the **ADMINISTRATIVE EXPENSES** excluding depreciation was HK$32 million (2017: HK$32 million) representing costs for corporate management office including directors' fees, salaries for executive staff and employees, rental, marketing expenses and office expenses.

FUNDING

- At 31st December, 2018, the OVERALL DEBTS of the Group were HK$457 million (2017: HK$728 million), of which HK$452 million (2017: HK$722 million) was assets secured bank borrowings and HK$5 million (2017: HK$6 million) was advances from shareholder. The decrease in overall debts was due to repayment of bank borrowings.

The gearing ratio was 11% (2017: 18%) in terms of overall debts of HK$457 million (2017: HK$728 million) against funds employed of HK$4,062 million before revaluation of all hotel properties (2017: HK$3,961 million).

The overall debts were analysed as follows:

	2017	**2018**	Change	Interest Paid 2018
	HK$ million	***HK$ million***	*HK$ million*	*HK$ million*
Bank loans	722	**452**	-270	**13.747**
Shareholder's loan	6	**5**	-1	**0.012**
Overall debts	728	**457**	-271	**13.759**

- **FINANCE COST**: Of these loans, the total interest expenses amounted to HK$13.759 million (2017: HK$11.085 million), the bank loans interest expenses amounted to HK$13.747 million (2017: HK$11.080 million) and the shareholder's loan interest expenses amounted to HK$0.012 million (2017: HK$0.005 million). The bank loan interests increased due to increase in interest rate during the year.

The Group's bank borrowings carry interest at floating rates and are mainly denominated in Hong Kong dollar and Pound Sterling. Accordingly, the Group exposes to exchange risk and management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. As at 31st December, 2018, the Group's staffing level did not have material change when compared with that of 31st December, 2017. Remuneration and benefit were set with reference to the market.

Cash flows of the Group

	2017 HK$ million	**2018 HK$ million**
Gross income	522	**580**
Less:		
Operating expenses	(282)	**(297)**
Interests expenses	(11)	**(14)**
Dividend paid out	(57)	**(63)**
Net borrowing (repayment) of bank loans	25	**(251)**
Acquisition of property, plant and equipment	(5)	**(8)**
Cash Inflow (Outflow)	192	**(53)**
Less:		
Various construction expenses	(17)	**(2)**
Acquisition of a subsidiary	(20)	**(38)**
Cash inflow (Outflow)	155	**(93)**

- The accounting standards require hotel properties of the Group to provide depreciation which amounted to HK$71 million (2017: HK$72.6 million) for the year.

Depreciation of Hotel Properties

Name of Hotel	2017 *HK$'000*	**2018** ***HK$'000***	Change *HK$'000*
Ramada Hong Kong Harbour View	6,307	**5,636**	-671
Best Western Grand Hotel	30,170	**28,954**	-1,216
Best Western Plus Hotel Kowloon	12,667	**13,309**	+642
Best Western Plus Hotel Hong Kong	3,701	**3,721**	+20
Best Western Hotel Causeway Bay	11,294	**11,359**	+65
Grand City Hotel	5,788	**5,795**	+7
Magnificent International Hotel, Shanghai	2,701	**2,541**	-160
Total amount for the year	72,628	**71,315**	-1,313

- **BUSINESS HIGHLIGHT**

  Under the leadership of our Chairman, Mr. William Cheng, our profit from operation of hotel increased by more than 26%, even though the travellers come to Hong Kong only increased by 4.9%.

  Also re-brand Best Western Hotel Harbour View to higher class **RAMADA HONG KONG HARBOUR VIEW**.

  The completion of renovation of the Best Western Plus Hotel Kowloon by adding of about 40 rooms to increase monthly revenue over 20% up to the date of this report.

  As at 31st December, 2018, the valuation of Royal Scot Hotel, London was GBP£95,000,000 against initial purchase cost GBP£70,000,000.

LOOKING AHEAD

- The opening of high speed train to the PRC and the new bridge to Macau may facilitate more PRC visitors. However, the uncertain economic situation in the PRC with 9% depreciated Renminbi and the continuing large supply of new local hotels and serious hotel labour shortage will adversely affect the number of visitors, completing room rates/occupancies and rising operating costs.

- The Hong Kong Tourism Board forecast overnight visitors in 2019 will increase by 2% only. The management team lead by our Chairman, Mr. William Cheng, will endeavor to continue to try to increase hotels revenue while controlling operating costs.

- Hotels revenue in this coming year may experience modest improvement. The management will try to seek good opportunities to further increase overall revenue and operating profit by acquisition of income-producing properties.

PUBLIC FLOAT

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

By Order of the Board

William Cheng Kai Man
Chairman

Hong Kong, 8th March, 2019

Directors' Profiles

Mr. William CHENG Kai Man, *Executive Director*
Aged 57. Appointed to the Board in 1987. He is also a director of Shun Ho Holdings Limited ("Shun Ho Holdings") and Shun Ho Property Investments Limited ("Shun Ho Property") which are the Company's intermediate holding company and immediate holding company respectively. He has over 30 years' experience in construction, property investment and development and has over 20 years' experience in hotel management. He graduated in the U.K. and holds a bachelor's degree in civil engineering and a master's degree in structural engineering.

Mr. Albert HUI Wing Ho, *Executive Director*
Aged 56. Appointed to the Board in 1990. He is also a director of Shun Ho Holdings and Shun Ho Property. He has over 30 years' experience in construction, property investment and development and has over 20 years' experience in hotel management. He graduated in the U.K. and holds a bachelor's degree in civil engineering.

Madam Kimmy LAU Kam May, *Executive Director*
Aged 51. FCCA, CPA. Appointed to the Board in 2017. She graduated from City University of Hong Kong and holds a bachelor's degree in accountancy. She is also a director of Shun Ho Holdings and Shun Ho Property. She has extensive experience in accounting, auditing and financial management. She has over 10 years' experience in hotel management.

Madam NG Yuet Ying, *Executive Director*
Aged 36. Appointed to the Board in 2017. She graduated from University of South Australia with Bachelor of Accountancy. She has extensive experience in accounting and financial management and hotel operation/management. She has over 9 years of experience in hotel accounting works.

Madam Jennie WONG Kwai Fong, *Executive Director*
Aged 56. FCIS, FCS PE. Appointed to the Board in 2018. She is also a director of Shun Ho Holdings and Shun Ho Property. She has over 30 years of experience in the company secretarial works.

Madam Mabel LUI FUNG Mei Yee, *Non-Executive Director*
Aged 67. Solicitor and Notary Public. Appointed to the Board in 1999. She is also a non-executive director of Shun Ho Holdings and Shun Ho Property. She is a senior executive consultant and head of Greater China Commercial Practice of Withers.

Mr. Vincent KWOK Chi Sun, *Independent Non-Executive Director*
Aged 56. ACA (Aust), CPA (Practising). Appointed to the Board in 1999. He is also an independent non-executive director of Shun Ho Holdings, Shun Ho Property, China Digital Culture (Group) Limited. He is a partner of Vincent Kwok & Co.

Mr. CHAN Kim Fai, *Independent Non-Executive Director*
Aged 59. FCCA, CPA (Practising). Appointed to the Board in 2004. He is also an independent non-executive director of Shun Ho Holdings, Shun Ho Property and EGL Holdings Company Limited. He holds a bachelor's degree in science from The Chinese University of Hong Kong. He has extensive experience in accounting, corporate finance and financial management. He is a partner of Ivan Chan & Co, CPA.

Mr. LAM Kwai Cheung, *Independent Non-Executive Director*
Aged 58. FCCA, CPA (Practising). Appointed to the Board in 2017. He is also an independent non-executive director of Shun Ho Holdings and Shun Ho Property. He has extensive experience in accounting, auditing and financial management. He is the practitioner of Terry Lam & Co., CPA.

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality board, sound internal control and transparency and accountability to all shareholders.

CORPORATE GOVERNANCE

The Board of the Company has approved the adoption of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as our corporate governance code.

(a) Compliance with the Corporate Governance Code

During the year ended 31st December, 2018, the Company has complied with all the code provisions of Corporate Governance Code set out in Appendix 14 of the Listing Rules with the exception of the following deviations:

Code Provision A.2.1: chairman and chief executive should not be performed by the same individual

The Company does not have separate appointments for Chairman and Chief Executive Officer. Mr. William Cheng Kai Man holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person enables the Company to have a stable and consistent leadership. It also facilitates the planning and execution of the Company's strategy and is hence, for the interests of the Company and its shareholders. It is also for significant cost saving for Mr. Cheng to perform Chief Executive Officer while being Chairman of the Board, otherwise, the Company may have to endure a high market price for employing an additional well performing Chief Executive Officer.

Code Provision A.4.1: non-executive directors should be appointed for a specific term

Except three Non-executive Directors, all Directors of the Company (including Executive or Non-executive Directors) are not appointed for a fixed term. The Articles of Association of the Company stipulate that every director (including Executive or Non-executive Directors) shall retire and be re-elected at least once every three years. Therefore, the Company has adopted adequate measures to ensure the corporate governance of the Company complies with the same level to that required under the Corporate Governance Code.

Code Provision A.5.2: the nomination committee should perform the duties set out in paragraphs (a) to (d)

The terms of reference of the nomination committee adopted by the Company are in compliance with the code provision A.5.2 except that it is not the duty of the nomination committee to select individuals nominated for directorships. The nomination committee comprises a majority of independent non-executive directors who are not involved in the daily operation of the Company and may not have sufficient knowledge of industry practice. Such duty should be performed by the Board.

Code Provision B.1.2: the remuneration committee's terms of reference should include, as a minimum, paragraphs (a) to (h)

The terms of reference of the remuneration committee adopted by the Company are in compliance with the code provision B.1.2 except that it is not the duties of the remuneration committee to approve the management's remuneration proposals, compensation payable to executive directors and senior management for any loss or termination of office or appointment and compensation arrangements relating to dismissal or removal of directors for misconduct. The remuneration committee comprises a majority of independent non-executive directors who are not involved in the daily operation of the Company and may not have sufficient knowledge of industry practice. Such duties should be performed by the Board.

(b) Compliance with the Model Code

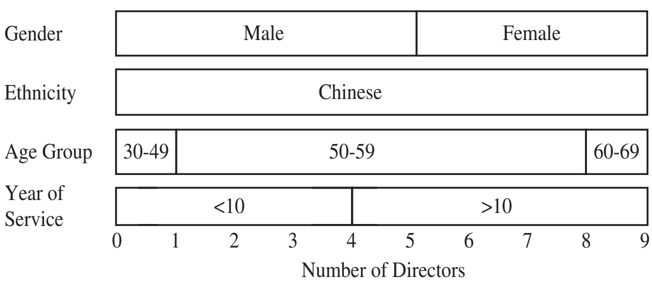
The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code during the year.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of Directors ("Board") of the Company is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

The Listing Rules require every listed issuer to have at least three independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. As at 31st December, 2018, the Board of the Company comprises a total of nine Directors, with five Executive Directors, one Non-executive Director and three Independent Non-executive Directors. All the Independent Non-Executive Directors have appropriate professional qualifications, or accounting or related financial management expertise.

As at the date of this report, the Board's composition under major diversified perspectives was summarized as follows:



None of the Directors has or maintained any financial, business, family or other material/relevant relationship with any of the other Directors.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

All Directors (including Executive or Non-executive Directors) are subject to retirement by rotation once every three years in accordance with the Company's Articles of Association. Review will be made regularly of the Board composition to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out on page 19.

The positions of the Chairman of the Board ("Chairman") and the Chief Executive Officer are not held by separate individuals pursuant to the reasons given above.

The Board is responsible for establishing the strategic direction of the Group; setting objectives and business development plans; monitoring the performance of the senior management and assuming responsibility for corporate governance.

The management, under the leadership of the Chief Executive Officer, is responsible for implementing the strategies and plans established by the Board; and submitting reports on the Company's operations to the Board on a regular basis to ensure effective discharge of the Board's responsibilities.

All Directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Group.

The Board is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Board meets regularly and held four meetings in 2018 and the attendance of each director is set out below:

	Number of Board meetings attended in 2018	Attendance rate
Executive Directors		
William Cheng Kai Man *(Chairman)*	4/4	100%
Albert Hui Wing Ho	4/4	100%
Kimmy Lau Kam May	4/4	100%
Ng Yuet Ying	4/4	100%
Jennie Wong Kwai Fong (appointed on 22nd January, 2018)	4/4	100%
Non-executive Director		
Mabel Lui Fung Mei Yee	3/4	75%
Independent Non-executive Directors		
Vincent Kwok Chi Sun	4/4	100%
Chan Kim Fai	4/4	100%
Lam Kwai Cheung	4/4	100%

Regular Board meetings of the year are scheduled in advance to give all Directors an opportunity to attend. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's Articles of Association.

Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary or her assistant and Chief Financial Officer shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. The Company Secretary or her assistant shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

Each newly appointed Director is provided with a package of orientation materials setting out the duties and responsibilities of Directors under the Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. Orientation meeting with newly appointed Director will be held for briefing on business and operations of the Company. Updates are provided to Directors when necessary to ensure that Directors are aware of the latest changes in the commercial and regulatory environment in which the Group conducts its businesses.

DIRECTORS' TRAINING

With effect from 1st April, 2012, Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. A summary of training received by Directors in 2018 is set out below:

	Type of Continuous Professional Development	
Name of Directors	**Attending seminar on regulatory development and/or directors' duties**	**Reading regulatory updates or information relevant to the Company or its business**
William Cheng Kai Man	√	√
Albert Hui Wing Ho	√	√
Kimmy Lau Kam May	√	√
Ng Yuet Ying	√	√
Jennie Wong Kwai Fong (appointed on 22nd January, 2018)	√	√
Mabel Lui Fung Mei Yee	√	√
Vincent Kwok Chi Sun	√	√
Chan Kim Fai	√	√
Lam Kwai Cheung	√	√

ATTENDANCE AT GENERAL MEETINGS

	Annual General Meeting (held on 24th May, 2018)
Executive Directors	
William Cheng Kai Man	√
Albert Hui Wing Ho	√
Kimmy Lau Kam May	√
Ng Yuet Ying	–
Jennie Wong Kwai Fong (appointed on 22nd January, 2018)	√
Non-executive Director	
Mabel Lui Fung Mei Yee	–
Independent Non-executive Directors	
Vincent Kwok Chi Sun	√
Chan Kim Fai	√
Lam Kwai Cheung	√

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

With the assistance of the Accounts Department which is under the supervision of the Chief Financial Officer of the Company, the Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group is in a timely manner.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 36 to 38.

During the year, the emoluments paid to the senior management, i.e. executive directors, of the Company fell within the following bands:

Emolument band (HK$)	**Number of individuals**
1 – 5,000,000	4
5,000,001 – 8,000,000	1
	5

RISK MANAGEMENT AND INTERNAL CONTROL

During the reporting period, the Board is responsible for evaluating and determining the nature and extent of the risks. The Board has overall responsibilities for maintaining sound and effective risk management and internal control system of the Group. The Board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provides a confirmation to the board on the effectiveness of these systems. This evaluation process will be carried out on an ongoing basis.

The Board has conducted a review of the effectiveness of the system of risk management and internal control of the Group and considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions and their training programmes and budget on an annual basis. The Board is of the view that the Group's system of risk management and internal control in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets.

In alignment with the amendments to the corporate governance code, the terms of reference of the Audit Committee have been revised to include the responsibility of reviewing the risk management and internal control systems. The Audit Committee will then report to the Board after due review of the management's confirmation on the effectiveness of the Group's risk management and internal control systems. The Board will review the adequacy and effectiveness of the Group's risk management through the Audit Committee. The Board rely on the Audit Committee which in turn rely on Risk Management Committee and Internal Audit Team.

The Company established its Risk Management Committee on 2nd January 2019. The Risk Management Committee comprises three executive directors expert in each area of business risks, financial risks and operation risks. The Risk Management Committee comprises Mr. William Cheng Kai Man (Chairman of the Risk Management Committee), Madam Kimmy Lau Kam May and Mr. Albert Hui Wing Ho. Mr. Cheng is responsible for business risks, Madam Lau is also our Chief Financial Officer responsible for financial risks and Mr. Hui is responsible for property assets management risks. They take daily, weekly, monthly check in their specific area.

The Company established its Internal Audit Team on 2nd January 2019. The Internal Audit Team comprises Mr. William Cheng Kai Man (Chairman of the Internal Audit Team), Madam Kimmy Lau Kam May (Financial Member of the Internal Audit Team) and Madam Ng Yuet Ying (Executive Member of the Internal Audit Team). Mr. Cheng is responsible for final review and approval, Madam Lau is responsible for financial area and Madam Ng is responsible for execution area. Monthly Reports from execution member of detail of all expenditures and proposed acquisitions were reported to the Internal Audit Team. Financial member carefully analysis and scrutinize the reports and then recommend the expenditures to the Chairman. After the chairman's review and approval, the Chairman pass down to the executive member for execution. They take daily, weekly, monthly check in internal audit and internal control systems.

The Internal Audit Team conducts independent reviews of the adequacy and effectiveness of the Group's internal audit and internal control systems associated with the Group's principal operations and reports the review results to the Board through the Audit Committee. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and internal audits are carried out to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

The Group's system of risk management and internal control is designed to assist the Group to achieve business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

In order to identifying, evaluating and managing the significant risks including operational (hotel operations, hotel management and property leasing) and functional (finance, human resources, IT, secretarial and corporate communications), the risk management of the Group combines a top-down strategic view with a bottom-up operational process. The Board, by the top-down approach, has a particular focus on determining the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group. On the other hand, the bottom up approach is embedded in the operations of the Group and complements the top-down strategic view by identifying the principal risks and ensuring all significant risks to be adequately considered by the Board. The Board assess effectiveness of existing controls, provide treatment plans where required, and monitor risk mitigating activities. Risk management of the Group has to be proactive to ensure that significant risks are identified, assessed by considering the impacts and likelihoods of their occurrence, and effectively managed by identifying suitable controls and counter-measures, and assessing the cost effectiveness of the mitigating actions proposed.

A summary on significant risks of the Group together with the relevant internal control measures is listed below:

a) Compliance Control

As a hotel operations listed company, the Group is exposed to and subject to extensive government policies and regulations of Hong Kong and the PRC, these include the Hong Kong Companies Ordinance, Hong Kong Financial Reporting Standards, the Listing Rules in Hong Kong, Hotel and Guesthouse Accommodation Ordinance and Business Registration Ordinance.

The Group is committed to complying with the relevant policies, regulations and guidelines applicable to its operations by experienced and professional staff as well as by consultancy with external experts. All the Group's operating hotels have already obtained the valid hotel licences.

b) Business Risk

The Group is dependent on the regional economic conditions in which the Group is operated. The risk of adverse economic conditions is managed by ensuring proper monitoring of the business performance, and constant assessment of economic conditions and the appropriateness of the prevailing investment and business strategy.

1. The travellers come to Hong Kong or not would be affected by the environmental risks includes catastrophe, such as SARs, chicken flu and typhoon.

2. Over 70% travellers came from the PRC, the political and economical stability of the PRC affects the travellers visiting Hong Kong.

c) Market Risk

The Group operates in areas that are highly competitive, and failure to compete effectively in terms of price, product quality and specification or levels of service can have an adverse impact on the Group's results. The market demand and supply condition is also one of the significant factors impacting the Group's performance. The Board had reviewed the nature and extent of the significant risks faced by the Group, including the number of overnight visitors arrive Hong Kong, supply of new hotel rooms, competing room rate and occupancy, as well as competition for experienced and skilled hotel personnel and the Group's ability to respond to its changes.

The Group manages market risks by keeping track of the hotel market condition, strengthening its brand names, product quality and setting strategies commensurate with the market demand. Best Western Hotel Harbour View was re-branded to a higher class **RAMADA HONG KONG HARBOUR VIEW** in January 2019.

d) Financial Risk

An effective and sound financial management system is essential to the Group's operations. The Group's finance team is embedded within the Group to provide financial management support by monitoring the financial market conditions and setting an appropriate financial strategy. The Group maintains an open and proactive relationship with the banking community, arranging different terms of loan facilities from different sources with different tenures and ensures continuous assessment of counterparty risks.

In 2018, the Board awared that the interest raising trend may result in higher interest cost which may affect our bottom line performance, therefore, the Board has taken significant step to reduce our borrowing from HK$722 million to HK$452 million, decreased by 37.40%.

e) Operational Risk

In order to ensure our hotels to provide accommodation to our guests, electricity and mechanical engineering systems must always be monitored to make sure its functional. The hotel staff is shortage in Hong Kong because the unemployment rate in Hong Kong is below 3%. Therefore, our hotels provide continuing internal training and recruitment.

The Board assesses the likely impact of any unexpected and significant event that may impact the price of the Company's shares or their trading volume and decides whether the relevant information is considered inside information and needs to be disclosed as soon as reasonably practicable pursuant to Rules 13.09 and 13.10 of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

AUDITOR'S REMUNERATION

For the year ended 31st December, 2018, the Auditor of the Company received approximately HK$2.5 million for audit service and HK$0.2 million for tax and consultancy services.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established an audit committee ("Audit Committee") in 1995 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). In accordance with the requirements of Corporate Governance Code, the terms of reference of the Audit Committee were revised on 20th April, 2005, 14th April, 2009, 28th March, 2012 and 1st January, 2016 in terms substantially the same as the provisions set out in the Code on Corporate Governance Practices and Corporate Governance Code. The terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

The principal duties of the Audit Committee include the review of the Group's financial controls and internal control and risk management, review of the Group's financial information (half-yearly and annual results) and review of the relationship with the Auditor of the Company. Regular meetings have been held by the Audit Committee since its establishment. The Audit Committee held two meetings in 2018, the attendance of each member is set out below:

	Number of Audit Committee meeting attended in 2018	Attendance rate
Vincent Kwok Chi Sun	2/2	100%
Chan Kim Fai	2/2	100%
Lam Kwai Cheung	2/2	100%

The scope of work done by the Audit Committee during the year under review includes the following:

- reviewed and recommended the Board to approve the audit fee proposal for year 2018;
- reviewed the interim report and the interim results announcement for the six months ended 30th June, 2018;
- reviewed the audit plan for year 2018 to assess the general scope of audit work; and
- reviewed the audited accounts and final results announcement for year 2017.

The existing Audit Committee of the Company comprises three Independent Non-executive Directors, namely, Mr. Vincent Kwok Chi Sun (Chairman of the Audit Committee), Mr. Chan Kim Fai and Mr. Lam Kwai Cheung.

The Group's annual report for the year ended 31st December, 2018 has been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

According to the Code on Corporate Governance Practices, the Company established its remuneration committee ("Remuneration Committee") on 20th April, 2005. The terms of reference of the Remuneration Committee were revised on 28th March, 2012 in terms substantially the same as the provisions set out in the Corporate Governance Code and are available on websites of the Company and the Stock Exchange. The existing Remuneration Committee comprises Mr. Vincent Kwok Chi Sun (Chairman of the Remuneration Committee, an Independent Non-executive Director) and Mr. William Cheng Kai Man (Executive Director) and Mr. Chan Kim Fai (an Independent Non-executive Director). The Remuneration Committee held one meeting in 2018, the attendance of each member is set out below:

	Number of Remuneration Committee meeting attended in 2018	Attendance rate
Vincent Kwok Chi Sun	1/1	100%
William Cheng Kai Man	1/1	100%
Chan Kim Fai	1/1	100%

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and reviewing the specific remuneration packages of all executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about their proposals relating to remuneration of executive directors and have access to professional advice if considered necessary.

During the year, the Remuneration Committee met to review the 2018 remuneration and made comparison to other listed companies and noted that the 2018 remuneration are lesser than the comparable remuneration in the market.

NOMINATION COMMITTEE

On 28th March, 2012, the Board resolved to establish a Nomination Committee. The committee members comprise Mr. William Cheng Kai Man (Chairman of the Committee, Executive Director), Mr. Chan Kim Fai (an Independent Non-executive Director) and Mr. Lam Kwai Cheung (an Independent Non-executive Director), appointed on 16th June, 2017. The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The Nomination Committee was established in March 2012 with specific terms of reference in accordance with the Corporate Governance Code. The Nomination Committee is responsible to review the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. It shall consider the suitability of a candidate to act as a Director on the basis of the candidate's qualification, experience, integrity and potential contribution to the Company, and assess the independence of Independent Non-executive Directors taking into account the independence requirements set out in Rule 3.13 of the Listing Rules. Before its establishment, the role and function of the Nomination Committee was taken up by the Board. During the year, all committee members have attended the meeting to review the structure, size and composition of the Board and assess the independence of Independent Non-executive Directors.

The Company adopted a policy concerning diversity of board members on 30th August, 2013. Selection of candidates of board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

NOMINATION POLICY

Objective

The nomination policy was approved and adopted by the Board on 27th December, 2018. The Nomination Committee shall consider the following criteria, procedures and the process in evaluating and selecting candidates for directorship. These provisions constitute the "Nomination Policy" of the Company.

Nomination Criteria

(a) Character and integrity;

(b) Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

(c) Willingness to devote adequate time to discharge duties as a member of the Board;

(d) Board diversity policy and any measurable objectives adopted for achieving diversity on the Board; and

(e) Such other perspectives appropriate to the Company's business or as suggested by the Board.

Nomination Procedures and Process

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process:

(a) The Secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and put forward the nominations of candidates from Board members if any, for consideration by the Nomination Committee;

(b) The Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as interviews, background checks, presentations and third party reference checks;

(c) The proposed candidates will be asked to submit the necessary personal information and biography for the Nomination Committee's consideration. The Nomination Committee may request the candidate(s) to provide additional information and documents, if considered necessary;

(d) Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;

(e) The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment;

(f) The Board may arrange for the selected candidate to be interviewed by the members of the Board and the Board will thereafter deliberate and decide the appointment as the case may be;

(g) The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting; and

(h) All appointment of Directors will be confirmed by the filing of the prescribed form with the Companies Registry of Hong Kong and updating (and, if necessary, filing) of the Register of Directors of the Company.

Decision by the Board

After the Nomination Committee makes its recommendations to the Board, the Board will have final authority on determining the selection of those director candidates for nomination to the Board.

Responsibilities

(a) To review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) To assess the Independence of independent non-executive directors; and

(d) To make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

COMPANY SECRETARY

Ms. KOO Ching Fan is an associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and a fellow member of the Association of Chartered Certified Accountants. She is also a holder of the Practitioner's Endorsement issued by the Hong Kong Institute of Chartered Secretaries. Although the Company Secretary is not a full time employee of the Company, she reports to the Board and is responsible for advising the Board on governance matters. The primary contact person of the Company with the Company Secretary is Ms. Jennie Wong Kwai Fong, the Executive Director of the Company. During 2018, Ms. Koo has confirmed that she has taken no less than 15 hours of relevant professional training.

CONSTITUTIONAL DOCUMENTS

During the year, there is no significant change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the mandatory disclosure requirements under Paragraph O of the Corporate Governance Code.

Convening of General Meeting on Request

Shareholder(s) may request the Directors to call a general meeting pursuant to Sections 566 to 568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "CO").

In accordance with Section 566 of the CO, the Directors are required to call a general meeting if the Company has received requests to do so from members of the Company representing at least 5% of the total voting rights of all the members having a right to vote at general meeting. Such requests must state the general nature of the business to be dealt with at the meeting; and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests may be sent to the Company in hard copy form (by depositing at the registered office of the Company at 3rd Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong for the attention of the Board) or in electronic form (by email: shunho@netvigator.com); and must be authenticated by the person or persons making it. In accordance with Section 567 of the CO, the Directors must call a meeting within 21 days after the date on which they become subject to the requirement under Section 566 of the CO and such meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

Putting Forward Proposals at Annual General Meeting

To put forward a resolution at an annual general meeting. shareholders are requested to follow the requirements and procedures set out in Sections 615 and 616 of the CO.

Section 615 of the CO provides that the Company must give notice of a resolution if it has received requests that it do so from (a) the members of the Company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at 3rd Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong for the attention of the Board) or in electronic form (by email: shunho@netvigator.com); (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than (i) 6 weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting. Section 616 of the CO provides that the Company that is required under Section 615 of the CO to give notice of a resolution must send a copy of it at the Company's own expense to each member of the Company entitled to receive notice of the annual general meeting (a) in the same manner as the notice of the meeting; and (b) at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

Pursuant to Article 120 of the Articles of Association of the Company, no person, other than a retiring Director, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting. Detailed procedures for shareholders to propose a person for election as a Director can be found on the Company's website.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors: (i) printed copies of corporate communication, (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) briefing meetings with analysts from investment sectors are set up from time to time on updated performance information of the Group, and (iv) the Company's Registrars serve the shareholders respecting all share registration matters.

Shareholders may at any time send their enquiries and concerns to the Board by addressing them to the Company at its registered office.

DIVIDEND PAYMENT POLICY

The Board has approved and adopted a dividend payment policy on 8th March, 2019 (the "Dividend Payment Policy"). Under the Dividend Payment Policy, the Company may declare and pay dividends to the shareholders of the Company (the "Shareholders").

According to the Dividend Payment Policy, the declaration, form, frequency and amount of any dividend payout of the Company must be in accordance with relevant laws, rules and regulations and subject to the articles of association of the Company (the "Articles of Association"). In accordance with the Articles of Association, the Company may by ordinary resolution declare dividends according to the respective rights of the Shareholders, but no dividend shall exceed the amount recommended by the Board and be payable out of the profits of the Company. Moreover, in addition to cash, the dividends may be paid up in the form of the Company's shares, by the distribution of specific assets of any kind or by distribution of any form.

The Dividend Payment Policy aims to provide stable and sustainable returns to Shareholders. In deciding whether to propose a dividend and in determining the dividend amount, the Company shall take into account, inter alia:

i. the Group's operating conditions and market environment;

ii. the Group's general financial position;

iii. the actual and future operating and liquidity capital of the Group;

iv. after-tax profit and distributable profits of the Company and the Group;

v. the Group's future acquisition capital requirement and expected working capital requirements;

vi. the continuity and sustainability of any dividend distribution; and

vii. any other factors that the Board deems appropriate.

The Board will review the Dividend Payment Policy from time to time and reserves its right in its sole and absolute discretion to update, amend, modify and/or cancel the Dividend Payment Policy. There can be no assurance that dividends will be paid in any particular amount for any given period.

The Board present their annual report and the audited consolidated financial statements for the year ended 31st December, 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides management services to its subsidiaries. The principal activities of the Company's principal subsidiaries are set out in note 31 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2018 are set out in the consolidated statement of profit or loss on page 39.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's prospects are provided in the Management Discussion and Analysis on pages 8 to 18 of the Annual Report. Description of principal risks and uncertainties that the Group is facing is provided in this Report of the Directors on page 35 of the Annual Report while the financial risk management objectives and policies of the Group can be found in notes 33 and 34 to the consolidated financial statements. An analysis of the Group's performance during the year using key performance indicators is provided in the Management Discussion and Analysis on pages 8 to 18 of the Annual Report and Financial Summary on page 105 of the Annual Report. In addition, discussions on the Group's compliance with relevant laws and regulations which have a significant impact on the Group, relationships with its key stakeholders and environmental policies are contained on page 35 of the Annual Report.

DIVIDEND

The Board recommends a final dividend of HK0.652 cent per share in respect of the year ended 31st December, 2018 (a final dividend of HK0.627 cent per share in respect of the year ended 31st December, 2017) payable on 27th June, 2019 to shareholders whose names appear on the register of members of the Company on 14th June, 2019.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 23 to the consolidated financial statements. There were no movements in the share capital of the Company during the year.

Regarding the general mandate to issue shares, the Board will only consider to issue new Shares pursuant to the general mandate of this financial year of 2019, if the Hong Kong authorities consider that the Company's share liquidity in the stock market is not sufficient.

RESERVES

Movements during the year in the reserves of the Group are set out on pages 93 to 94 and those of the Company are set out in note 30 to the consolidated financial statements.

The Company's reserves available for distribution to shareholders as at 31st December, 2018 represent its retained profits of HK$1,760,189,000 (2017: HK$1,787,749,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

INVESTMENT PROPERTIES

All the investment properties of the Group were revalued at 31st December, 2018. The revaluation gave rise to an increase of approximately HK$98 million which has been dealt with in the consolidated statement of profit or loss.

Details of movements during the year in the investment properties of the Group are set out in note 16 to the consolidated financial statements.

PROPERTIES UNDER DEVELOPMENT

During the year, development expenditure of approximately HK$1 million (2017: HK$18 million) was incurred on the properties under development.

Details of movements during the year in the properties under development of the Group are set out in note 17 to the consolidated financial statements.

BORROWINGS

An analysis of the repayment schedule of bank loans is set out in note 22 to the consolidated financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at 31st December, 2018 are set out on page 106 of the Annual Report.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors
Mr. William Cheng Kai Man
Mr. Albert Hui Wing Ho
Madam Kimmy Lau Kam May
Madam Ng Yuet Ying
Madam Jennie Wong Kwai Fong (Appointed on 22nd January, 2018)

Non-executive directors
Madam Mabel Lui Fung Mei Yee
Mr. Vincent Kwok Chi Sun*
Mr. Chan Kim Fai*
Mr. Lam Kwai Cheung*

* *independent non-executive directors*

In accordance with the provisions of the Company's Articles of Association, Mr. William Cheng Kai Man, Mr. Chan Kim Fai and Mr. Lam Kwai Cheung shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office for each of the non-executive directors is the period up to his or her retirement by rotation in accordance with the Company's Articles of Association.

The Company has received annual confirmations from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

DIRECTORS OF SUBSIDIARIES

The name of persons who have served on the board of the subsidiaries of the Company during the year and up to the date of this report are Mr. William Cheng Kai Man, Mr. Albert Hui Wing Ho and Madam Kimmy Lau Kam May.

DIRECTORS' INTERESTS IN LISTED SECURITIES

As at 31st December, 2018, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (a) to be entered in the register required to be kept by the Company under section 352 of the SFO; or (b) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

The Company

Name of director	Capacity	Nature of interests	Number of shares/ underlying shares held	Approximate % of shareholding
William Cheng Kai Man	Interest of controlled corporations	Corporate	6,360,585,437 *(Note)*	71.09
Jennie Wong Kwai Fong	Beneficial owner	Personal	6,425	0.00

Note:

Shun Ho Property Investments Limited ("Shun Ho Property") beneficially owned 2,709,650,873 shares of the Company (the "Shares") (30.29%) and was taken to be interested in 395,656,000 Shares (4.42%) held by Good Taylor Limited, 273,579,983 Shares (3.06%) held by South Point Investments Limited, 3,500,000 Shares (0.04%) held by Shun Ho Technology Developments Limited and 2,978,198,581 Shares (33.29%) held by Fastgrow Engineering & Construction Company Limited ("Fastgrow"), representing a total of 6,360,585,437 Shares (71.09%). Mr. William Cheng Kai Man had controlling interest in the above-mentioned companies. All the above interests in the Shares are long position.

Associated corporations

Name of director	Name of associated corporation	Capacity	Nature of interests	Number of shares held	Approximate % of shareholding
William Cheng Kai Man	Shun Ho Property *(Note 1)*	Interest of controlled corporations	Corporate	366,943,999	63.29
William Cheng Kai Man	Shun Ho Holdings Limited ("Shun Ho Holdings") *(Note 2)*	Interest of controlled corporations	Corporate	216,608,825	71.20
William Cheng Kai Man	Trillion Resources Limited ("Trillion Resources") *(Note 3)*	Beneficial owner	Personal	1	100
Jennie Wong Kwai Fong	Shun Ho Property	Beneficial owner	Personal	6,000	0.00
Jennie Wong Kwai Fong	Shun Ho Holdings	Beneficial owner	Personal	8,100	0.00

Notes:

1. Shun Ho Property, the Company's immediate holding company, is a public limited company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange.

2. Shun Ho Holdings, the Company's intermediate holding company, is a public limited company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange.

3. Trillion Resources, the Company's ultimate holding company, is a company incorporated in the British Virgin Islands.

4. All the above interests in the shares of the associated corporations are long position.

Share options

An employees share option scheme of the Company was adopted at the extraordinary general meeting held on 14th November, 2013 (the "Share Option Scheme") and was amended at the annual general meeting held on 18th June, 2014. Pursuant to the Share Option Scheme, the Board may, at its discretion, offer to grant options to subscribe for shares of the Company based on the terms and conditions set out therein to any director (including executive, non-executive Directors and independent non-executive Directors) and any employee of the Group whom the Board considers, in its sole discretion, have contributed or will contribute to the Group (the "Participant(s)"). The purpose of the grant of options is to reward hotel senior management according to their performance in relation to the growth of hotel revenue. **No option has been granted since the adoption of the Share Option Scheme in 2013 and no new options are anticipated to be granted in 2019**.

Summary of the Share Option Scheme are as below:

(i) Purpose

The Share Option Scheme is a share incentive scheme and is established to reward Participants who have contributed to the Group and to encourage Participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

(ii) Maximum number of shares

(1) 5% limit

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 5 per cent. of the shares in issue on the date of the passing of the ordinary resolution on 18th June, 2014, being 447,352,566 shares.

(2) Individual limit

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including options exercised and outstanding) to each Participant in any twelve month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the approval of our shareholders in general meeting with such Participants and their associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time.

Any grant of options to a director, chief executive or substantial shareholder of our Company or any of their respective associates is required to be approved by the independent non-executive directors. If the Board proposes to grant options to a substantial shareholder or any independent non-executive director or their respective associates which will result in the number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the twelve-month period up to and including the date of such grant: (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the shares in issue; and (ii) having an aggregate value in excess of HK$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the shares at the date of each grant, such further grant of options will be subject to the approval of our shareholders in general meeting at which all connected persons of our Company shall abstain from voting, and/or other requirements prescribed under the Listing Rules from time to time.

(3) Maximum limit of 30%

The shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our Company at any time shall not exceed 30% of the shares in issue from time to time.

(iii) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period which may be determined and notified by the Board to the grantees at the time of making an offer which shall not expire later than 10 years from the grant date.

(iv) Amount payable upon acceptance of option

Upon acceptance of an option, the grantee shall pay HK$10.00 to our Company by way of consideration for the grant.

(v) The exercise price

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of: (i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant; and (ii) the average of the official closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

(vi) The remaining life of the Share Option Scheme

Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

(vii) Shares to be issued under the Share Option Scheme

As at the date of this report, the total number of shares to be issuable under the Share Option Scheme is 447,352,566 shares, representing 5% of the total number of shares in issue.

No share option had been granted under the Share Option Scheme and no other share option scheme was adopted by the Company and its subsidiaries as at 31st December, 2018.

Save as disclosed above and save for shares in subsidiaries held by a director in trust for their immediate holding companies, as at 31st December, 2018, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be entered in the register required to be kept by the Company under section 352 of the SFO; or (b) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers and none of the directors or their associates or their spouse or children under the age of 18, had any right to subscribe for the securities of the Company or associated corporations, or had exercised any such right during the year.

EQUITY-LINKED AGREEMENTS

Details of the share option scheme are set out in this report.

Save as disclosed above, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE AND RELATED PARTY TRANSACTIONS

During the year, the Group had transactions with certain related parties, details of which are set out in notes 8 and 29 to the consolidated financial statements.

Save as disclosed herein:

(a) no transactions, arrangements or contracts of significance subsisted at any time during the year or at the end of the year to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company or his/her connected entities had a material interest, whether directly or indirectly; and

(b) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

Amongst the directors who held office during the year, Mr. William Cheng Kai Man was indirectly interested in the share capital of Shun Ho Holdings, Shun Ho Property and the Company.

In the opinion of the directors not having an interest in those transactions, those transactions were carried out in the ordinary course of the Group's business on normal commercial terms.

MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries were entered into during the year or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no director shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto, provided that this Article shall only have effect in so far as its provisions are not avoided by the Companies Ordinance.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the Directors of the Company and its subsidiaries.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of purchases and sales attributable to the five largest suppliers and customers of the Group accounted for less than 10% in aggregate of the Group's total purchases and sales respectively.

None of the Directors, their close associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's shares) has any interest in any of the Group's five largest customers or suppliers.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2018, the following persons (not being directors or chief executive of the Company) had interests in the Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity	Number of Shares/ underlying Shares held	Approximate % of shareholding
Shun Ho Property *(Note 1)*	Beneficial owner and interest of controlled corporations	6,360,663,987 (L)	71.09
Omnico Company Inc. ("Omnico") *(Note 2)*	Interest of controlled corporations	6,360,663,987 (L)	71.09
Shun Ho Holdings *(Note 2)*	Interest of controlled corporations	6,360,663,987 (L)	71.09
Trillion Resources *(Note 2)*	Interest of controlled corporations	6,360,663,987 (L)	71.09
Liza Lee Pui Ling *(Note 3)*	Interest of spouse	6,360,663,987 (L)	71.09
Fastgrow	Beneficial owner	2,978,198,581 (L)	33.29

Name of shareholder	Capacity	Number of Shares/ underlying Shares held	Approximate % of shareholding
Credit Suisse Trust Limited *(Note 4)*	Interest in person acting in concert	628,938,500 (L)	7.03
Hashim Hashim Abdullah *(Note 4)*	Interests of controlled corporations	628,938,500 (L)	7.03
North Salomon Limited *(Note 4)*	Interest in person acting in concert	628,938,500 (L)	7.03
Saray Capital Limited *(Note 4)*	Interests of controlled corporations	628,938,500 (L)	7.03
Saray Developed Markets Value Fund *(Note 4)*	Beneficial owner and interest in person acting in concert	628,938,500 (L)	7.03
Saray Equities Investment Management *(Note 4)*	Investment manager	628,938,500 (L)	7.03
Saray Value SPV Asia I *(Note 4)*	Beneficial owner and interest in person acting in concert	628,938,500 (L)	7.03
Shobokshi Hussam *(Note 4)*	Interest in person acting in concert	628,938,500 (L)	7.03
FMR LLC *(Note 5)*	Interests of controlled corporation	469,451,000 (L)	5.25

Notes:

1. Shun Ho Property beneficially owned 2,709,729,423 Shares (30.29%) and was taken to be interested in 395,656,000 Shares (4.42%) held by Good Taylor Limited, 273,579,983 Shares (3.06%) held by South Point Investments Limited, 3,500,000 Shares (0.04%) held by Shun Ho Technology Developments Limited and 2,978,198,581 Shares (33.29%) held by Fastgrow, representing a total of 6,360,663,987 Shares (71.09%). The above-mentioned companies were wholly-owned subsidiaries of Shun Ho Property.

2. Shun Ho Property is directly and indirectly owned as to 60.38% by Omnico, which was in turn owned as to 100% by Shun Ho Holdings, which was in turn directly owned as to 50.6% by Trillion Resources, which was in turn wholly-owned by Mr. William Cheng Kai Man. Therefore, Omnico, Shun Ho Holdings and Trillion Resources were taken to be interested in 6,360,663,987 Shares by virtue of their direct or indirect interests in Shun Ho Property.

3. Madam Liza Lee Pui Ling was deemed to be interested in 6,360,663,987 Shares by virtue of the interest in such Shares of her spouse, Mr. William Cheng Kai Man, a director of the Company.

4. Saray Value SPV Asia I beneficially held 518,717,639 Shares (5.80%). Saray Developed Markets Value Fund beneficially held 110,220,861 Shares (1.23%). Both Saray Value SPV Asia I and Saray Developed Markets Value Fund were wholly-owned subsidiaries of Saray Equities Investment Management. Therefore, Saray Value SPV Asia I had interest in person acting in concert of 110,220,861 Shares (1.23%) and Saray Developed Markets Value Fund had interest in person acting in concert of 518,717,639 Shares (5.80%). Saray Equities Investment Management was held by Saray Capital Limited as to 100%. Saray Capital Limited was held by Hashim Hashim Abdullah as to 45%. Therefore, total number of Shares in which Saray Value SPV Asia I, Saray Developed Markets Value Fund, Saray Equities Investment Management, Saray Capital Limited and Hashim Hashim Abdullah were interested under section 317 and 318 of SFO was 628,938,500 Shares (7.03%).

   Shobokshi Hussam, North Salomon Limited, Saray Value SPV Asia I and Saray Developed Markets Value Fund were parties to an agreement under section 317 of SFO. North Salomon Limited was held by Credit Suisse Trust Limited as to 100%. Therefore, total number of Shares in which Shobokshi Hussam, North Salomon Limited and Credit Suisse Trust Limited were interested under section 317 and 318 of SFO is 628,938,500 Shares (7.03%).

5. Fidelity Management & Research (Japan) Limited beneficially held 220,316,000 Shares (2.46%). Fidelity Management & Research (Hong Kong) Limited beneficially held 90,048,000 Shares (1.01%). FMR Investment Management (UK) Limited beneficially held 159,087,000 Shares (1.78%). Both Fidelity Management & Research (Japan) Limited and Fidelity Management & Research (Hong Kong) Limited were wholly-owned by Fidelity Management & Research Company. FMR Investment Management (UK) Limited was wholly-owned by Fidelity Management & Research (U.K.) Inc. which was wholly-owned by Fidelity Management & Research Company, Fidelity Management & Research Company was wholly-owned by FMR LLC. Therefore, FMR LLC was deemed to have interest in 469,451,000 Shares (5.25%).

L: Long Position

Save as disclosed above, there was no person, other than a director or chief executive of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and with the knowledge of the directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

ENVIRONMENTAL POLICIES

With regard to the environmental policies, the Group aims to minimise the Group's environmental impact. The Group have adopted various environmental protection measures for energy efficiency, carbon reduction and to improve efficiency of water usage. They are regularly reviewed and results are closely monitored.

Further details will be disclosed in the Company's Environmental, Social and Governance Report 2018 which should be published on The Stock Exchange of Hong Kong Limited's website and the Company's website no later than three months after the publication of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Company ensures that all applicable laws, rules and regulations are duly complied with. All the Group's hotels in Hong Kong obtained hotel licences from Home Affair Departments and the hotel in the PRC obtained the business licence to operate hotel business. For operating hotel business, all the relevant permits, licenses, certificates and other approvals were obtained.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Company places significant emphasis on human capital. The remuneration and benefit were set with reference to the market so as to recruit and retain the staff with the particular skills required for the Company's strategies. The Company provides a health and safety management system, a fair workplace together with a range of opportunities for career advancement based on employees' merits and performance.

To enhance customer satisfaction and promote a customer-oriented culture within the Company, the Company takes 'Customer First' as one of our core values. The Company values the feedback from customers through daily communication, regular inspections and customer satisfaction surveys. The Company has also established the mechanism about customer service, support and complaints. We address customers' concern in a timely manner and in accordance with international standards.

The Company believes that our suppliers are equally important in driving quality delivery of our services. Our business suppliers deliver quality sustainable products and services. The Company assures the performance of our suppliers through supplier approval process and by spot checks on the delivered goods.

THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE COMPANY

The following is a list of principal risks and uncertainties that are considered to be of significance and have potential to affect the Group's businesses, results of operations and financial conditions. However, this is non-exhaustive as there may be other risks and uncertainties arise resulting from changes in economic and other conditions over time.

The Group owns 8 hotels, six in Hong Kong, one in London and one in the PRC. The Group is operating 7 hotels out of this 8 hotels, the hotel in London is operated by a hotel management company. Hotel performance is usually subject to a high degree of fluctuations caused by both predictable and unpredictable factors including seasonality, social stability, epidemic diseases and changes in economic conditions. Because of the large operating expenses of hotel business, the market profit margin is only 35% to 40% of the hotel's total income. Therefore, any significant income downturn due to the above predictable or unpredictable factors may lead to substantial decrease of net profit.

In this respect, hotel segment closely assesses the impact of the geopolitical outlook and economic development of different countries for building its portfolios and exposures to match with the Group's risk appetite. It also takes continual reviews of competition, legal and political changes as well as market trends for setting its business strategies including marketing and pricing to protect and drive profitability.

AUDITOR

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

William CHENG Kai Man
Chairman

Hong Kong, 8th March, 2019

Deloitte. 德勤

TO THE MEMBERS OF MAGNIFICENT HOTEL INVESTMENTS LIMITED
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Magnificent Hotel Investments Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 104, which comprise the consolidated statement of financial position as at 31st December, 2018, and the consolidated statement of profit or loss, consolidated statement of total comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the judgments associated with determining the fair value. As at 31st December, 2018, the Group's investment properties, which are commercial property units located in Hong Kong and a hotel property located in the United Kingdom, amounted to approximately HK$1,099 million and represented 24% of the Group's total assets. An increase in fair value of approximately HK$98 million was recognised in the consolidated statement of profit or loss for the year then ended. All of the Group's investment properties are stated at fair value based on valuations performed by independent professional valuers (the "Valuers"). The fair value is derived by using income capitalisation method and by making reference to comparable sales transactions as available in the market. Details of the valuation techniques and key inputs used in the valuations are disclosed in note 16 to the consolidated financial statements. The valuations of investment properties are dependent on those key inputs.	Our procedures in relation to assessing the appropriateness of the carrying values of the investment properties included: • Assessing management's process for reviewing the work of the Valuers; • Evaluating the competence, capability and objectivity of the Valuers; • Obtaining an understanding of the valuation process and techniques adopted by the Valuers; and • Evaluating the reasonableness of key inputs used in the valuations by (i) checking the details of rentals to the existing tenancy profiles (including monthly rental income, occupancy level and expiry date of respective rental agreements); and (ii) comparing to relevant market information on selling prices, rents and capitalisation rates adopted in other similar properties in nearby location and with similar condition.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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 the matter 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 the independent auditor's report is Keung To Wai, David.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
8th March, 2019

Consolidated Statement of Profit or Loss

For the Year Ended 31st December, 2018

	NOTES	**2018**	2017
		HK$'000	*HK$'000*
Revenue	*5*	**579,673**	522,432
Cost of sales		**(4,414)**	(4,593)
Other service costs		**(260,703)**	(244,557)
Depreciation of property, plant and equipment and release of prepaid lease payments for land		**(71,315)**	(72,628)
Gross profit		**243,241**	200,654
Increase in fair value of investment properties		**97,750**	50,200
Other income and expenses and gains and losses	*7*	**10,096**	(18,120)
Administrative expenses		**(39,516)**	(38,989)
– Depreciation		**(7,210)**	(6,493)
– Others		**(32,306)**	(32,496)
Finance costs	*8*	**(13,759)**	(11,085)
Profit before taxation	*9*	**297,812**	182,660
Income tax expense	*11*	**(37,463)**	(30,486)
Profit for the year attributable to owners of the Company		**260,349**	152,174
		HK cents	*HK cents*
Earnings per share	*13*		
Basic		**2.91**	1.70
Diluted		**N/A**	N/A

Consolidated Statement of Total Comprehensive Income

For the Year Ended 31st December, 2018

	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**260,349**	152,174
Other comprehensive (expense) income		
Item that will not be reclassified to profit or loss		
Fair value loss on equity instruments at fair value through other comprehensive income	**(54,764)**	–
Items that may be subsequently reclassified to profit or loss		
Exchange differences arising on translation of foreign operations	**(41,941)**	75,068
Fair value gain on available-for-sale investments	**–**	21,299
Other comprehensive (expense) income for the year	**(96,705)**	96,367
Total comprehensive income for the year attributable to owners of the Company	**163,644**	248,541

Consolidated Statement of Financial Position

At 31st December, 2018

	NOTES	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,690,769**	2,650,413
Prepaid lease payments for land	15	**27,105**	29,528
Investment properties	16	**1,099,300**	1,055,800
Properties under development	17	**–**	74,157
Available-for-sale investments	18	**–**	377,370
Equity instruments at fair value through other comprehensive income	18	**320,711**	–
		4,137,885	4,187,268
CURRENT ASSETS			
Inventories		**1,309**	1,093
Prepaid lease payments for land	15	**815**	862
Trade and other receivables	19	**23,827**	21,327
Other deposits and prepayments		**8,330**	6,884
Bank balances and cash	20	**499,169**	608,762
		533,450	638,928
CURRENT LIABILITIES			
Trade and other payables and accruals	21	**24,822**	23,806
Rental and other deposits received		**10,752**	5,736
Contract liabilities		**3,680**	–
Amount due to immediate holding company	29	**5,088**	4,898
Amount due to ultimate holding company	29	**–**	1,501
Tax liabilities		**14,611**	11,155
Bank loans	22	**172,735**	404,094
		231,688	451,190
NET CURRENT ASSETS		**301,762**	187,738
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,439,647**	4,375,006

	NOTES	2018 HK$'000	2017 HK$'000
CAPITAL AND RESERVES			
Share capital	23	**841,926**	841,926
Reserves		**3,219,735**	3,119,347
TOTAL EQUITY		**4,061,661**	3,961,273
NON-CURRENT LIABILITIES			
Bank loans	22	**278,866**	317,646
Rental deposits received		**1,552**	2,090
Deferred tax liabilities	24	**97,568**	93,997
		377,986	413,733
		4,439,647	4,375,006

The consolidated financial statements on pages 39 to 104 were approved and authorised for issue by the Board of Directors on 8th March, 2019 and are signed on its behalf by:

William CHENG Kai Man
DIRECTOR

Kimmy LAU Kam May
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended 31st December, 2018

	Attributable to owners of the Company							
	Share capital *HK$'000*	**Special capital reserve** *HK$'000* *(Note a)*	**Property revaluation reserve** *HK$'000* *(Note b)*	**Securities revaluation reserve** *HK$'000*	**Foreign currency translation reserve** *HK$'000*	**Other reserve** *HK$'000* *(Note c)*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1st January, 2017	841,926	612,477	179	277,819	(84,886)	3,561	2,118,917	3,769,993
Exchange differences arising on translation of foreign operations	–	–	–	–	75,068	–	–	75,068
Fair value gain on available-for-sale investments	–	–	–	21,299	–	–	–	21,299
Other comprehensive income for the year	–	–	–	21,299	75,068	–	–	96,367
Profit for the year	–	–	–	–	–	–	152,174	152,174
Total comprehensive income for the year	–	–	–	21,299	75,068	–	152,174	248,541
Final dividend for year ended 31st December, 2016 paid *(note 12)*	–	–	–	–	–	–	(50,372)	(50,372)
Interim dividend payable for the six months ended 30th June, 2017 *(note 12)*	–	–	–	–	–	–	(6,889)	(6,889)
At 31st December, 2017	841,926	612,477	179	299,118	(9,818)	3,561	2,213,830	3,961,273
Exchange differences arising on translation of foreign operations	–	–	–	–	(41,941)	–	–	(41,941)
Fair value loss on equity instruments at fair value through other comprehensive income	–	–	–	(54,764)	–	–	–	(54,764)
Other comprehensive expense for the year	–	–	–	(54,764)	(41,941)	–	–	(96,705)
Profit for the year	–	–	–	–	–	–	260,349	260,349
Total comprehensive (expense) income for the year	–	–	–	(54,764)	(41,941)	–	260,349	163,644
Final dividend for year ended 31st December, 2017 paid *(note 12)*	–	–	–	–	–	–	(56,098)	(56,098)
Interim dividend payable for the six months ended 30th June, 2018 *(note 12)*	–	–	–	–	–	–	(7,158)	(7,158)
At 31st December, 2018	841,926	612,477	179	244,354	(51,759)	3,561	2,410,923	4,061,661

Notes:

(a) The special capital reserve represents the difference arising from the reduction of the nominal value of the Company's share in 1999. Details are set out in note 30 to the consolidated financial statements.

(b) The property revaluation reserve is frozen upon the transfer of properties from property, plant and equipment to investment properties and will be transferred to retained profits when the relevant properties are disposed of.

(c) The other reserve represents the difference between the sales proceeds from the disposal of partial interest in a subsidiary and the reduction of interest in the carrying amounts of assets and liabilities of the subsidiary.

Consolidated Statement of Cash Flows
For the Year Ended 31st December, 2018

	NOTE	**2018**	2017
		HK$'000	*HK$'000*
OPERATING ACTIVITIES			
Profit before taxation		**297,812**	182,660
Adjustments for:			
Interest income from bank deposits		**(9,067)**	(2,608)
Finance costs		**13,759**	11,085
Increase in fair value of investment properties		**(97,750)**	(50,200)
Loss on disposal of property, plant and equipment		**99**	42
Exchange loss		**–**	21,094
Depreciation of property, plant and equipment		**77,710**	78,259
Release of prepaid lease payments for land		**815**	862
Operating cash flows before movements in working capital		**283,378**	241,194
Increase in inventories		**(216)**	(26)
Increase in trade and other receivables		**(605)**	(1,090)
(Increase) decrease in other deposits and prepayments		**(1,446)**	1,059
Increase (decrease) in trade and other payables and accruals		**2,364**	(5,754)
Increase (decrease) in rental and other deposits received		**10,157**	(11,126)
Decrease in contract liabilities		**(1,999)**	–
Cash generated from operations		**291,633**	224,257
Hong Kong Profits Tax paid		**(25,684)**	(20,589)
Income tax paid elsewhere		**(4,541)**	(1,229)
Interest from bank deposits received		**9,067**	2,608
NET CASH FROM OPERATING ACTIVITIES		**270,475**	205,047
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		**147**	304
Expenditure on properties under development		**(1,982)**	(16,530)
Acquisition of property, plant and equipment		**(7,649)**	(5,494)
Acquisition of a subsidiary	*32*	**(38,191)**	(19,905)
Decrease in pledged bank deposit		**–**	173,265
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(47,675)**	131,640

Consolidated Statement of Cash Flows *(Continued)*

For the Year Ended 31st December, 2018

	NOTE	2018	2017
		HK$'000	HK$'000
FINANCING ACTIVITIES			
Interest paid	35	**(13,784)**	(10,953)
New bank loans raised	35	**–**	447,025
Repayments of bank loans	35	**(250,862)**	(441,953)
Dividends paid to shareholders	35	**(62,987)**	(57,261)
(Repayment to) advance from ultimate holding company	35	**(1,501)**	1,501
Advance from immediate holding company	35	**15,561**	621
Repayment to immediate holding company	35	**(15,561)**	(621)
NET CASH USED IN FINANCING ACTIVITIES		**(329,134)**	(61,641)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(106,334)**	275,046
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**608,762**	331,074
Effect of foreign exchange rate changes		**(3,259)**	2,642
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**499,169**	608,762

1. GENERAL

Magnificent Hotel Investments Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Company's immediate and intermediate holding company are Shun Ho Property Investments Limited ("Shun Ho Property") and Shun Ho Holdings Limited ("Shun Ho Holdings"), respectively, both are public limited companies incorporated in Hong Kong whose shares are listed on the Hong Kong Stock Exchange. The directors consider the Company's ultimate holding company to be Trillion Resources Limited ("Trillion Resources"), an international business company incorporated in the British Virgin Islands (the "BVI").

The address of the registered office and principal place of business of the Company is 3rd Floor, Shun Ho Tower, 24 – 30 Ice House Street, Central, Hong Kong.

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are the investment and operation of hotels, property investment, property development, securities investment, and treasury investment.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1st January, 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Hospitality services
- Properties investment
- Securities investment

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

The application of the HKFRS 15 has no significant impact on the timing and amounts of revenue in the retained profits at 1st January, 2018. As at 1st January, 2018, advances from customers of HK$5,679,000 in respect of hospitality services contracts previously included in the "rental and other deposits received" have been classified to "contract liabilities" upon the application of HKFRS 15.

HKFRS 9 "Financial Instruments" and the related amendments

In the current year, the Group has applied HKFRS 9 "Financial Instruments", Amendments to HKFRS 9 "Prepayment Features with Negative Compensation" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for i) the classification and measurement of financial assets and financial liabilities, ii) expected credit losses ("ECL") for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts) and iii) general hedge accounting.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

HKFRS 9 "Financial Instruments" and the related amendments *(Continued)*

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1st January, 2018. The difference between carrying amounts as at 31st December, 2017 and the carrying amounts as at 1st January, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

Below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1st January, 2018.

From available-for-sale investments to equity investments at fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$377,370,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI. Any fair value gains/losses relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and the securities revaluation reserve as at 1st January, 2018. The fair value gains of HK$299,118,000 relating to those investments previously carried at fair value continued to accumulate in the securities revaluation reserve.

Impairment under ECL model

The application of the ECL model of HKFRS 9 has no material impact on the accumulated amount of impairment loss to be recognised by Group as at 1st January, 2018 as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been assessed individually with outstanding significant balances, the remaining balances are grouped based on past due analysis.

ECL for other financial assets at amortised cost, including bank balances and other receivables, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

Amendments to HKAS 40 "Transfers of Investment Property"

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1st January, 2018.

Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31st December, 2017 *HK$'000* *(Audited)*	HKFRS 15 *HK$'000*	HKFRS 9 *HK$'000*	**1st January, 2018** ***HK$'000*** ***(Restated)***
Non-current assets				
Available-for-sale investments	377,370	–	(377,370)	**–**
Equity instruments at FVTOCI	–	–	377,370	**377,370**
Others with no adjustments	3,809,898	–	–	**3,809,898**
	4,187,268	–	–	**4,187,268**
Current assets				
Others with no adjustments	638,928	–	–	**638,928**
Current liabilities				
Rental and other deposits received	5,736	(5,679)	–	**57**
Contract liabilities	–	5,679	–	**5,679**
Others with no adjustments	445,454	–	–	**445,454**
	451,190	–	–	**451,190**
Net current assets	187,738	–	–	**187,738**
Total assets less current liabilities	4,375,006	–	–	**4,375,006**
Capital and reserves				
Others with no adjustments	3,961,273	–	–	**3,961,273**
Non-current liabilities				
Others with no adjustments	413,733	–	–	**413,733**
Net assets	4,375,006	–	–	**4,375,006**

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31st December, 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1st January, 2018 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1st January, 2019
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after 1st January, 2021
[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January, 2020
[5] Effective for annual periods beginning on or after 1st January, 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 "Leases" *(Continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st December, 2018, the Group as lessee has non-cancellable operating lease commitments of HK$3,044,000 as disclosed in note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$70,000 and refundable rental deposits received of HK$2,160,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The significant accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Acquisition of subsidiaries not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Based on the historical pattern, the directors of the Company are of the opinion that the income from operation of hotels are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to the unsatisfied contracts is not disclosed.

Revenue from room and other ancillary service is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation, as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

Revenue from hotel food and beverage sales is recognised at a point in time when the food and beverage are served.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Revenue recognition (prior to 1st January, 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the operation of hotels is recognised when services are rendered.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised in profit or loss on a straight-line basis over the terms of the relevant lease.

Income from hotel management service is recognised when services are rendered.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes other than properties under construction as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

Properties under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Costs include professional fees capitalised in accordance with the Group's accounting policy. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories, representing inventories of food and beverages, are stated at the lower of cost and net realisable value. Costs of inventories are determined on first-in, first-out basis. Net realisable value represents the estimated selling price for inventories less the estimated costs necessary to make the sale.

Impairment loss on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of tangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1st January, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which is derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit- impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the investment revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "revenue" line item in profit or loss.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit- impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the below basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1st January, 2018)

Financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, other deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Equity securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of securities revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the securities revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment of financial assets below).

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1st January, 2018)

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as a default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1st January, 2018) (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment loss is reversed does not exceed what the amortised cost would have been had the impairment loss not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the securities revaluation reserve.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the securities revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the securities revaluation reserve is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, other deposits received, amounts due to immediate holding company and ultimate holding company and bank loans) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases, included rentals invoiced in advance from properties let under operating leases, is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments for land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred taxes for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Borrowing costs

Borrowing costs directly attribute to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the Group's Mandatory Provident Fund Scheme and other defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. 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 estimate is 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.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgment in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred taxes arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Group has not recognised deferred taxes on changes in fair value of investment properties located in Hong Kong and the United Kingdom (the "UK") as the Group is not subject to income taxes on disposal of its investment properties.

Key sources of estimation uncertainty

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

Investment properties and the valuation process

As described in note 16, investment properties are stated at fair value based on the valuations performed by independent professional valuers. In determining the fair value, the valuers have used a method of valuation which involves certain estimates. In relying on the valuation reports, the management has exercised their judgment and are satisfied that the method of valuation and the key inputs, including capitalisation rates and market rents, are reflective of the current market conditions. If there are changes in the assumptions used for the valuations, the fair value of the investment properties will change in the future. As at 31st December, 2018, the carrying amount of investment properties is HK$1,099,300,000 (2017: HK$1,055,800,000).

In estimating the fair value of investment properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group looks for other appropriate valuation techniques and inputs for fair value measurement.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of investment properties. Note 16 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of investment properties.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Deferred tax asset

As at 31st December, 2018, a deferred tax asset of HK$5,799,000 (2017: HK$7,816,000) in relation to unused tax losses has been recognised as set out in note 24. No deferred tax asset has been recognised on the remaining tax losses of HK$23,219,000 (2017: HK$23,450,000) as it is not probable that taxable profit will be available against which the tax losses can be utilised. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material recognition or reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a change takes place.

5. REVENUE

Revenue represents the aggregate of income from operation of hotels, property rental and dividend income, and is analysed as follows:

	2018	2017
	HK$'000	*HK$'000*
Income from operation of hotels *(Note)*	**540,040**	483,744
Income from property rental	**34,762**	34,224
Dividend income	**4,871**	4,464
	579,673	522,432

Note:

Disaggregation of revenue for hospitality services segment.

	2018	2017
	HK$'000	*HK$'000*
Types of goods or services (time of revenue recognition):		
Room revenue and other ancillary services (recognised over time)	**520,129**	462,658
Food and beverage (recognised at a point in time)	**19,911**	21,086
	540,040	483,744
Geographical markets:		
Hong Kong	**520,071**	460,887
The People's Republic of China ("PRC")	**19,969**	22,857
	540,040	483,744

6. SEGMENT INFORMATION

HKFRS 8 "Operating Segments" requires operating and reportable segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the Chairman of the Company, for the purposes of allocating resources to segments and assessing their performance. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

1. Hospitality services – Best Western Plus Hotel Kowloon
2. Hospitality services – Best Western Plus Hotel Hong Kong
3. Hospitality services – Magnificent International Hotel, Shanghai
4. Hospitality services – Best Western Hotel Causeway Bay
5. Hospitality services – Best Western Hotel Harbour View
6. Hospitality services – Best Western Grand Hotel
7. Hospitality services – Grand City Hotel
8. Properties investment
9. Securities investment

Information regarding the above segments is reported below.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments for both years:

	Segment revenue Year ended 31st December,		**Segment profit Year ended 31st December,**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hospitality services	**540,040**	483,744	**203,608**	161,966
– Best Western Plus Hotel Kowloon	**69,763**	62,232	**19,017**	14,808
– Best Western Plus Hotel Hong Kong	**90,715**	81,600	**42,144**	35,215
– Magnificent International Hotel, Shanghai	**19,969**	22,857	**3,334**	6,741
– Best Western Hotel Causeway Bay	**72,108**	64,922	**24,725**	19,384
– Best Western Hotel Harbour View	**113,247**	97,048	**53,433**	41,028
– Best Western Grand Hotel	**117,884**	106,054	**38,959**	28,629
– Grand City Hotel	**56,354**	49,031	**21,996**	16,161
Properties investment	**34,762**	34,224	**132,512**	84,424
Securities investment	**4,871**	4,464	**4,871**	4,464
	579,673	522,432	**340,991**	250,854
Other income and expenses and gains and losses			**10,096**	(18,120)
Central administration costs and directors' emoluments			**(39,516)**	(38,989)
Finance costs			**(13,759)**	(11,085)
Profit before taxation			**297,812**	182,660

6. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' emoluments, other income and expenses and gains and losses, and finance costs. This is the measure reported to the chief operating decision maker, being the Chairman of the Company, for the purposes of resources allocation and performance assessment.

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales for both years.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment:

	2018	2017
	HK$'000	*HK$'000*
Segment assets		
Hospitality services	**2,634,658**	2,700,856
– Best Western Plus Hotel Kowloon	**291,785**	301,884
– Best Western Plus Hotel Hong Kong	**320,534**	323,903
– Magnificent International Hotel, Shanghai	**70,679**	77,172
– Best Western Hotel Causeway Bay	**327,868**	338,392
– Best Western Hotel Harbour View	**506,924**	509,464
– Best Western Grand Hotel	**721,810**	749,007
– Grand City Hotel	**395,058**	401,034
Properties investment	**1,099,300**	1,056,444
Securities investment	**322,040**	378,637
Total segment assets	**4,055,998**	4,135,937
Unallocated assets	**615,337**	690,259
Consolidated assets	**4,671,335**	4,826,196

	2018	2017
	HK$'000	*HK$'000*
Segment liabilities		
Hospitality services	**24,280**	23,649
– Best Western Plus Hotel Kowloon	**5,714**	6,698
– Best Western Plus Hotel Hong Kong	**3,899**	3,618
– Magnificent International Hotel, Shanghai	**1,256**	1,296
– Best Western Hotel Causeway Bay	**2,540**	2,599
– Best Western Hotel Harbour View	**4,687**	3,732
– Best Western Grand Hotel	**4,372**	4,349
– Grand City Hotel	**1,812**	1,357
Properties investment	**10,418**	1,602
Securities investment	**2**	2
Total segment liabilities	**34,700**	25,253
Unallocated liabilities	**574,974**	839,670
Consolidated liabilities	**609,674**	864,923

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reportable segments other than the Group's head office corporate assets (including certain property, plant and equipment) and bank balances and cash; and

- all liabilities are allocated to operating and reportable segments other than the Group's head office corporate liabilities, amounts due to immediate holding company and ultimate holding company, bank loans and current and deferred tax liabilities.

Other segment information

	Depreciation of property, plant and equipment and release of prepaid lease payments for land		Additions to non-current assets *(Note)*		Increase in fair value of investment properties	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:						
Hospitality services	**71,315**	72,628	**7,569**	22,326	**–**	–
– Best Western Plus Hotel Kowloon	**13,309**	12,667	**2,068**	20,369	**–**	–
– Best Western Plus Hotel Hong Kong	**3,721**	3,701	**721**	720	**–**	–
– Magnificent International Hotel, Shanghai	**2,541**	2,701	**79**	45	**–**	–
– Best Western Hotel Causeway Bay	**11,359**	11,294	**849**	696	**–**	–
– Best Western Hotel Harbour View	**5,636**	6,307	**2,221**	250	**–**	–
– Best Western Grand Hotel	**28,954**	30,170	**1,466**	93	**–**	–
– Grand City Hotel	**5,795**	5,788	**165**	153	**–**	–
Properties investment	**–**	–	**–**	–	**97,750**	50,200
Securities investment	**–**	–	**–**	–	**–**	–
	71,315	72,628	**7,569**	22,326	**97,750**	50,200

Note: Additions to non-current assets excluded equity instruments at FVTOCI/available-for-sale investments.

6. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are located in Hong Kong, the PRC and the UK.

The following is an analysis of the Group's revenue primarily by geographical markets based on location of assets:

	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**527,545**	468,075
The PRC	**19,969**	22,857
The UK	**32,159**	31,500
	579,673	522,432

The following is an analysis of the Group's non-current assets by geographical location of the assets:

	Non-current assets *(Note)*	
	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**2,803,706**	2,889,617
The PRC	**69,168**	75,481
The UK	**944,300**	844,800
	3,817,174	3,809,898

Note: Non-current assets excluded equity instruments at FVTOCI/available-for-sale investments.

Information about major customers

There were no customers individually contributing over 10% of the total sale amounts for both years.

Revenue from major services

Analysis of the Group's revenue from its major services are set out as below:

	2018	2017
	HK$'000	*HK$'000*
Room revenue	**518,447**	460,687
Food and beverage	**19,911**	21,086
Property rental income	**34,762**	34,224
Dividend income	**4,871**	4,464
Others	**1,682**	1,971
	579,673	522,432

7. OTHER INCOME AND EXPENSES AND GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Other income and expenses and gains and losses comprise:		
Interest income from bank deposits	**9,067**	2,608
Exchange loss	**–**	(21,094)
Management fee income	**1,069**	325
Others	**(40)**	41
	10,096	(18,120)

8. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interests on:		
Bank loans	**13,747**	11,080
Amount due to immediate holding company *(note 29)*	**12**	4
Amount due to ultimate holding company *(note 29)*	**–**	1
	13,759	11,085

9. PROFIT BEFORE TAXATION

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	**2,526**	2,507
Staff costs including directors' emoluments	**182,078**	168,414
Depreciation of property, plant and equipment	**77,710**	78,259
Loss on disposal of property, plant and equipment	**99**	42
Release of prepaid lease payments for land	**815**	862
Operating lease rental in respect of rented equipment	**3,725**	3,726
Gross rental income from investment properties	**(34,762)**	(34,224)
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	**–**	–
	(34,762)	(34,224)

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and Chief Executive's emoluments

The emoluments paid or payable to the Company's directors are as follows:

	Year ended 31st December, 2018				
	Directors' fees *HK$'000*	**Basic salaries, allowances and benefits-in-kind** *HK$'000*	**Performance related bonus payments** *HK$'000*	**Contributions to retirement benefits schemes** *HK$'000*	**Total** *HK$'000*
Executive Directors					
Mr. William Cheng Kai Man	–	5,867	1,143	18	7,028
Mr. Albert Hui Wing Ho	–	1,004	576	18	1,598
Madam Kimmy Lau Kam May	–	980	154	18	1,152
Madam Ng Yuet Ying	–	768	218	18	1,004
Madam Jennie Wong Kwai Fong (appointed on 22nd January, 2018)	–	573	–	18	591
Non-executive Director					
Madam Mabel Lui Fung Mei Yee	17	–	–	–	17
Independent Non-executive Directors					
Mr. Vincent Kwok Chi Sun	53	–	–	–	53
Mr. Chan Kim Fai	50	–	–	–	50
Mr. Lam Kwai Cheung	50	–	–	–	50
	170	9,192	2,091	90	11,543

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' and Chief Executive's emoluments *(Continued)*

	Year ended 31st December, 2017				
	Directors' fees	Basic salaries, allowances and benefits-in-kind	Performance related bonus payments	Contributions to retirement benefits schemes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Mr. William Cheng Kai Man	–	5,866	1,143	18	7,027
Mr. Albert Hui Wing Ho	–	808	576	18	1,402
Madam Kimmy Lau Kam May (appointed on 29th August, 2017)	–	352	–	6	358
Madam Ng Yuet Ying (appointed on 29th August, 2017)	–	238	60	6	304
Non-executive Director					
Madam Mabel Lui Fung Mei Yee	17	–	–	–	17
Independent Non-executive Directors					
Mr. Vincent Kwok Chi Sun	53	–	–	–	53
Mr. Chan Kim Fai	49	–	–	–	49
Mr. Lam Kwai Cheung (appointed on 16th June, 2017)	27	–	–	–	27
Mr. Hui Kin Hing (resigned on 16th June, 2017)	23	–	–	–	23
	169	7,264	1,779	48	9,260

Mr. William Cheng Kai Man is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

No directors waived any emoluments in the years ended 31st December, 2018 and 2017.

The performance related bonus payments payable to the executive directors are determined based on the performance of the individual directors.

During the years ended 31st December, 2018 and 2017, no emolument was paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

Of the five individuals in the Group with the highest emoluments, four (2017: two) were directors of the Company whose emoluments are included above. The emoluments of the remaining one individual (2017: three individuals) is as follows:

	2018	2017
	HK$'000	*HK$'000*
Basic salaries, allowances and benefits-in-kind	**1,035**	2,413
Performance related bonus payments	**291**	560
Contributions to retirement benefits schemes	**18**	54
	1,344	3,027

The emoluments were within the following bands:

	Number of individuals	
	2018	2017
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**1**	1
	1	3

11. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
The taxation charge comprises:		
Current tax		
Hong Kong	**28,808**	23,175
The PRC	**733**	1,605
The UK	**5,262**	4,650
	34,803	29,430
Overprovision in prior years		
Hong Kong	**(849)**	(154)
The UK	**(62)**	–
	33,892	29,276
Deferred tax	**3,571**	1,210
	37,463	30,486

11. INCOME TAX EXPENSE *(Continued)*

On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

Under the United Kingdom Tax Law, the tax rate of the subsidiary operating in the UK is 20%.

According to a joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui [2008] No. 1, starting from 1st January, 2008, 10% withholding income tax will be imposed on dividends related to profits earned by the companies established in the PRC in the calendar year 2008 onwards, being declared to their foreign shareholders pursuant to Articles 3 and 6 of the EIT Law, and Article 17 of the Implementation Rules of the EIT Law. Deferred tax liabilities on the temporary differences attributable to the undistributed profits earned by the Company's PRC subsidiary of HK$2,902,000 (2017: HK$2,685,000) were recognised as at 31st December, 2018.

The taxation expense for the year can be reconciled to profit before taxation as follows:

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation	**297,812**	182,660
Tax at the Hong Kong Profits Tax rate of 16.5% (2017: 16.5%)	**49,139**	30,139
Tax effect of expenses not deductible for tax purpose	**14,681**	9,846
Tax effect of income not taxable for tax purpose	**(27,589)**	(10,889)
Overprovision in prior years	**(911)**	(154)
Tax effect of tax losses not recognised	**–**	79
Utilisation of tax losses previously not recognised	**(141)**	(165)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,214**	1,365
Deferred tax liabilities arising on undistributed profits of a PRC subsidiary	**217**	479
Others	**853**	(214)
Income tax expense	**37,463**	30,486

12. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Final dividend in respect of the year ended 31st December, 2017 of HK0.627 cent (2017: Final dividend in respect of the year ended 31st December, 2016 of HK0.563 cent) per share was paid to shareholders	**56,098**	50,372
Interim dividend in respect of the six months ended 30th June, 2018 of HK0.08 cent (2017: Interim dividend in respect of the six months ended 30th June, 2017 of HK0.077 cent) per share payable to shareholders	**7,158**	6,889
	63,256	57,261

The final dividend in respect of the year ended 31st December, 2018 of HK0.652 cent per share amounting to HK$58,335,000 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of HK$260,349,000 (2017: HK$152,174,000) and on 8,947,051,000 shares (2017: 8,947,051,000 shares) in issue during the year.

Diluted earnings per share for both years are not presented as there are no potential ordinary shares exist during both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold land and hotel buildings	Furniture, fixtures and equipment	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1st January, 2017	62,292	3,010,266	105,307	27,943	3,205,808
Exchange realignment	–	5,227	225	26	5,478
Additions	–	–	3,717	1,777	5,494
Acquisition of a subsidiary	19,905	–	–	–	19,905
Transfer from properties under development	–	–	600	–	600
Disposals	–	–	(28)	(463)	(491)
At 31st December, 2017	82,197	3,015,493	109,821	29,283	3,236,794
Exchange realignment	–	(3,623)	(162)	(10)	(3,795)
Additions	–	–	6,936	713	7,649
Acquisition of a subsidiary *(note 32)*	38,191	–	–	–	38,191
Transfer from properties under development *(note 17)*	–	74,621	116	–	74,737
Disposals	–	–	(973)	(346)	(1,319)
At 31st December, 2018	**120,388**	**3,086,491**	**115,738**	**29,640**	**3,352,257**
DEPRECIATION					
At 1st January, 2017	11,467	416,978	68,262	9,699	506,406
Exchange realignment	–	1,643	196	22	1,861
Provided for the year	2,077	64,103	6,444	5,635	78,259
Eliminated on disposals	–	–	(17)	(128)	(145)
At 31st December, 2017	13,544	482,724	74,885	15,228	586,381
Exchange realignment	–	(1,378)	(145)	(7)	(1,530)
Provided for the year	2,749	64,017	5,115	5,829	77,710
Eliminated on disposals	–	–	(895)	(178)	(1,073)
At 31st December, 2018	**16,293**	**545,363**	**78,960**	**20,872**	**661,488**
CARRYING AMOUNTS					
At 31st December, 2018	**104,095**	**2,541,128**	**36,778**	**8,768**	**2,690,769**
At 31st December, 2017	68,653	2,532,769	34,936	14,055	2,650,413

Note: Leasehold land and buildings are situated on land in Hong Kong.

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the remaining term of land lease
Hotel buildings and buildings	50 years or over the remaining term of land lease, whichever is shorter
Furniture, fixtures and equipment	4% – 33%
Others	20%

15. PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments represent the land in the PRC and are analysed for reporting purposes as:

	2018	2017
	HK$'000	*HK$'000*
Non-current asset	**27,105**	29,528
Current asset	**815**	862
	27,920	30,390

16. INVESTMENT PROPERTIES

	2018	2017
	HK$'000	*HK$'000*
FAIR VALUE		
At the beginning of the year	**1,055,800**	927,250
Exchange realignment	**(54,250)**	78,350
Increase in fair value recognised in profit or loss	**97,750**	50,200
At the end of the year	**1,099,300**	1,055,800

The fair values of the Group's investment properties as at 31st December, 2018 and 2017 have been arrived at on the basis of valuations carried out on that date by Cushman & Wakefield Limited and Allsop LLP, independent qualified professional valuers which are not connected with the Group. The valuation reports on these properties are signed by a director of Cushman & Wakefield Limited who is a member of The Hong Kong Institute of Surveyors and a partner of Allsop LLP who is a member of the Royal Institution of Chartered Surveyors, and were arrived at by adopting the income capitalisation method and by making reference to comparable sales transactions as available in the market to assess the market value of the investment properties.

16. INVESTMENT PROPERTIES *(Continued)*

The investment properties of the Group with an aggregate carrying amount of approximately HK$1,059 million (2017: HK$950 million) were rented out under operating leases at the end of the reporting period. Outgoing expenses for investment properties that are not generating income during the year are insignificant.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The income capitalisation approach estimates the values of the properties on an open market basis by capitalising rental income on a fully leased basis having regard to the current passing rental income from existing tenancies and potential future reversionary income at the market level. The term value involves the capitalisation of the current passing rental income over the existing lease term. The reversionary value is taken to be current market rental income upon the expiry of the lease and is capitalised on a fully leased basis. In this approach, the valuers have considered the term yield and reversionary yield. The term yield is used for capitalisation of the current passing rental income as at the date of valuation whilst the reversionary yield is used to convert reversionary rental income.

Key inputs used to determine fair values are as follows:

(a) Capitalisation rate

It is estimated based on market lease over market value on comparables. The higher the capitalisation rates used, the lower the fair values of the investment properties would be. The market capitalisation rates of 2.5% to 2.75% (2017: 3%) and 3.49% (2017: 4%) are adopted for shops of hotels located in Hong Kong and a hotel property in the UK respectively.

(b) Market rent

It is estimated based on the market lease comparable. The higher the market rent used, the higher the fair values of the investment properties would be. The average monthly rental of ranging from HK$47.91 to HK$142.55 per square feet (2017: ranging from HK$53.66 to HK$232.42 per square feet) and Pound Sterling (“GBP”) 2.21 per square feet (2017: GBP2.22 per square feet) are adopted for shops of hotels located in Hong Kong and a hotel property located in the UK respectively.

The Group’s investment properties are classified as Level 3 in the fair value hierarchy as at 31st December, 2018 and 2017.

There were no transfers into or out of Level 3 during both years.

The fair value measurement of investment properties is negatively correlated to the capitalisation rate, which is applied to the prevailing market rent. A slight increase/decrease in the capitalisation rate would result in a significant decrease/increase in fair value and vice versa. In addition, the fair value change of investment properties is positively correlated to the change in market rental during the year.

17. PROPERTIES UNDER DEVELOPMENT

	2018	2017
	HK$'000	*HK$'000*
At cost		
At the beginning of the year	**74,157**	56,369
Additions	**580**	18,388
Transfer to property, plant and equipment *(note 14)*	**(74,737)**	(600)
At the end of the year	**–**	74,157

During the year ended 31st December, 2016, the Group redeveloped certain shops in Best Western Plus Hotel Kowloon into hotel rooms. The management of the Group considers that there was a change in use for those shops which were classified as investment properties. The investment properties were transferred to properties under development. The change in use was evidenced by the commencement of development with a view to owner-occupation. Upon the completion of redevelopment of individual hotel rooms, the relevant amount was transferred to property, plant and equipment during the current year.

18. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	HK$'000	*HK$'000*
Listed equity securities in Hong Kong at fair value *(Note a)*	**–**	375,475
Unlisted equity investments, at cost *(Note b)*	**–**	1,895
Equity instruments at FVTOCI *(Note a)*	**320,711**	–
	320,711	377,370

Notes:

(a) The fair value of listed equity securities is determined by reference to quoted market bid price from the Hong Kong Stock Exchange.

The Group's non-current equity securities listed in Hong Kong include approximately 11.75% (2017: 11.75%) interest in Shun Ho Property and approximately 20.57% (2017: 20.57%) interest in Shun Ho Holdings, both are public companies incorporated and listed in Hong Kong.

The Company is a subsidiary of Shun Ho Property and Shun Ho Holdings. Under the Hong Kong Companies Ordinance, companies within the Group who are shareholders of Shun Ho Property and Shun Ho Holdings have no right to vote at meetings of Shun Ho Property and Shun Ho Holdings. The directors are of the opinion that the Group is not in a position to exercise significant influence over Shun Ho Property and Shun Ho Holdings, accordingly, the results of Shun Ho Property and Shun Ho Holdings have not been accounted for on an equity basis.

(b) The unlisted equity investments were measured at cost less impairment at the year ended 31st December, 2017 because the range of reasonable fair value estimates was so significant that the directors of the Company were of the opinion that their fair values cannot be measured reliably.

19. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**19,155**	19,647
Other receivables	**4,672**	1,680
	23,827	21,327

Except for a credit period of 30 to 60 days granted to travel agencies and certain customers of the hotels, the Group does not allow any credit period to customers. The following is an aged analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
Not yet due	**17,942**	18,723
Overdue:		
0 – 30 days	**1,051**	865
31 – 60 days	**119**	57
61 – 90 days	**43**	2
	19,155	19,647

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit rating limits. 94% (2017: 95%) of the trade receivables are neither past due nor impaired, and no impairment has been made to these trade receivables, as the directors believe that the amounts are with good credit quality.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$1,213,000 (2017: HK$924,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss, by taking into account the past default experience. The Group does not hold any collaterals over these balances.

The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of the Company believe that there is no further credit provision required.

Aging of trade receivables which are past due but not impaired

	2018	2017
	HK$'000	*HK$'000*
Overdue:		
0 – 30 days	**1,051**	865
31 – 60 days	**119**	57
61 – 90 days	**43**	2
	1,213	924

20. BANK BALANCES AND CASH

Bank balances carry interest at prevailing deposit interest rates ranging from 0.01% to 2.3% (2017: 0.001% to 1.35%) per annum.

21. TRADE AND OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**3,557**	3,532
Other payables and accruals *(Note)*	**21,265**	20,274
	24,822	23,806

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
0 – 30 days	**3,464**	3,289
31 – 60 days	**72**	239
61 – 90 days	**21**	4
	3,557	3,532

The credit period on purchase of goods is up to 30 days. The Group has financial risk management policies in place to ensure that all payables are within credit timeframe.

Note: As at 31st December, 2018, other payables and accruals include construction costs payable of HK$1,100,000 (2017: HK$2,502,000).

22. BANK LOANS

	2018	2017
	HK$'000	*HK$'000*
Secured bank loans	**451,601**	721,740
Carrying amounts of bank loans that do not contain a repayment on demand clause:		
Repayable within one year from the end of the reporting period	**20,130**	21,386
Not repayable within one year from the end of the reporting period	**278,866**	317,646
	298,996	339,032
Carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but:		
Repayable within one year from the end of the reporting period	**83,645**	229,610
Not repayable within one year from the end of the reporting period shown under current liabilities	**68,960**	153,098
	152,605	382,708
	451,601	721,740
Amounts shown under current liabilities	**172,735**	404,094
Amounts shown under non-current liabilities	**278,866**	317,646
	451,601	721,740

All the Group's bank loans are floating rate borrowings. The bank loans are secured over certain of the Group's assets as disclosed in note 27. Effective interest rate is 2.34% (2017: 1.58%) per annum.

23. SHARE CAPITAL

	Number of shares	Amount
	'000	*HK$'000*
Ordinary shares		
Issued and fully paid:		
At 1st January, 2017, 31st December, 2017 and 2018	8,947,051	841,926

24. DEFERRED TAX LIABILITIES/ASSET

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax liabilities and asset have been offset. The following are the deferred tax liabilities (asset) recognised and movements thereon during the current and prior reporting periods:

	Business combination	**Accelerated tax depreciation**	**Withholding tax**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2017	24,975	73,682	2,206	(8,076)	92,787
(Credit) charge to profit or loss	(761)	1,232	479	260	1,210
At 31st December, 2017	24,214	74,914	2,685	(7,816)	93,997
(Credit) charge to profit or loss	(761)	2,098	217	2,017	3,571
At 31st December, 2018	**23,453**	**77,012**	**2,902**	**(5,799)**	**97,568**

At the end of the reporting period, the Group has unused tax losses of HK$58,364,000 (2017: HK$70,820,000) available to offset against future profits. A deferred tax asset has been recognised in respect of such losses to the extent of HK$35,145,000 (2017: HK$47,370,000). No deferred tax asset has been recognised in respect of the remaining tax losses of HK$23,219,000 (2017: HK$23,450,000) due to the unpredictability of future profit streams. All the unrecognised tax losses may be carried forward indefinitely.

25. PROJECT/CAPITAL COMMITMENTS

As at 31st December, 2018, the Group had outstanding commitments contracted for but not provided in the consolidated financial statements in respect of expenditure on property, plant and equipment amounting to HK$382,000 (2017: HK$400,000).

26. OPERATING LEASE COMMITMENTS

The Group as lessor

Rental income from investment properties earned during the year amounting to HK$34,762,000 (2017: HK$34,224,000). The properties under leases have committed tenants for one year to twenty one years from the end of the reporting period without termination options granted to tenants.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases:

	2018	2017
	HK\$'000	*HK\$'000*
Within one year	**35,677**	37,147
More than one year but not more than five years	**129,506**	134,352
More than five years	**482,923**	545,659
	648,106	717,158

The Group as lessee

At the end of the reporting period, the Group had commitments for the following future minimum lease payments under non-cancellable operating leases in respect of office and rented equipments:

	2018	2017
	HK\$'000	*HK\$'000*
Within one year	**2,427**	1,559
More than one year but not more than five years	**617**	274
	3,044	1,833

The leases are negotiated for term ranging from two to three years with monthly fixed rental.

Other than as disclosed above, the Group had no material lease commitments outstanding at the end of the reporting period.

27. PLEDGE OF ASSETS/REVENUE

At the end of the reporting period, the bank loan facilities of the Group were secured by the followings:

(a) investment properties and property, plant and equipment of the Group with carrying amounts as at 31st December, 2018 of approximately HK$1,099 million (2017: HK$1,056 million) and HK$1,297 million (2017: HK$2,487 million), respectively;

(b) pledge of shares in certain subsidiaries with an aggregate net asset value as at 31st December, 2018 of approximately HK$335 million (2017: HK$517 million); and

(c) assignment of the Group's rentals and hotel revenue respectively.

28. RETIREMENT BENEFIT PLANS

The Group operates a Government Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs capped at HK$1,500 (2017: HK$1,500) per month of each individual employee to the scheme, which contribution is matched by employees.

The employees of the Company's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefit scheme is to make the specified contributions.

The contributions paid and payable to the Government Mandatory Provident Fund Scheme and the state-managed retirement benefit scheme operated by the PRC government by the Group in respect of the year which were charged to profit or loss amounting to HK$6,771,000 (2017: HK$6,585,000).

29. RELATED PARTY TRANSACTIONS

Other than those disclosed in respective notes to the consolidated financial statements, the Group had the following transactions with related parties during the year and balances with related parties at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
Shun Ho Property and its subsidiaries*		
Rental expenses *(Note a)*	**2,301**	2,239
Interest expenses on amount due from the Group *(Note b)*	**12**	4
Corporate management fee income for administrative facilities provided	**3,504**	3,192
Corporate management fee income for hotel operation services provided	**1,069**	325
Dividend paid/payable	**44,970**	40,708
Dividend received/receivable	**4,559**	4,088
Shun Ho Holdings		
Corporate management fee income for administrative facilities provided	**150**	117
Trillion Resources		
Interest expenses on amount due from the Group *(Note c)*	**–**	1
Compensation of key management personnel *(Note d)*	**11,543**	9,260
Shun Ho Property and its subsidiaries*		
Amount due from the Group at the end of the reporting period *(Note b)*	**5,088**	4,898
Trillion Resources		
Amount due from the Group at the end of the reporting period *(Note c)*	**–**	1,501

* exclude the Company and its subsidiaries

Notes:

(a) No commitment arised from the lease rental from the immediate holding company.

(b) The interest-bearing portion which carried interest at 2% per annum was fully repaid during the year ended 31st December, 2018. The outstanding balance as at 31st December, 2018 amounting to HK$5,088,000 (2017: HK$4,898,000) is unsecured, interest-free and repayable on 27th June, 2019.

(c) As at 31st December, 2017, the amount due to ultimate holding company was unsecured, carried interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 4% per annum and repayable on demand. The amount was fully repaid during the year.

(d) The compensation of key management personnel comprised short-term and post employment benefits attributable to such personnel.

The remuneration of directors which are also the key management personnel of the Group during the year was as follows:

	2018	2017
	HK$'000	*HK$'000*
Short-term benefits	**11,453**	9,212
Post-employment benefits	**90**	48
	11,543	9,260

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018	2017
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**1,045**	1,100
Investments in subsidiaries *(Note)*	**389,563**	370,710
Amounts due from subsidiaries	**2,480,194**	2,489,497
Available-for-sale investments	**–**	1,895
	2,870,802	2,863,202
CURRENT ASSETS		
Other receivables	**3,246**	172
Other deposits and prepayments	**927**	828
Tax recoverable	**2,198**	823
Bank balances and cash	**371,450**	413,571
	377,821	415,394
CURRENT LIABILITIES		
Other payables and accruals	**6,558**	8,433
Amount due to immediate holding company	**5,088**	4,898
Amount due to ultimate holding company	**–**	1,501
Amounts due to subsidiaries	**22,256**	21,507
	33,902	36,339
NET CURRENT ASSETS	**343,919**	379,055
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,214,721**	3,242,257
CAPITAL AND RESERVES		
Share capital	**841,926**	841,926
Reserves	**2,372,666**	2,400,226
TOTAL EQUITY	**3,214,592**	3,242,152
NON-CURRENT LIABILITY		
Deferred tax liability	**129**	105
	3,214,721	3,242,257

Note: Investments in subsidiaries are included in the Company's statement of financial position at cost (including deemed capital contribution) less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 8th March, 2019 and is signed on its behalf by:

William CHENG Kai Man
DIRECTOR

Kimmy LAU Kam May
DIRECTOR

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Movement in the Company's reserves

	Special capital reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*
	(Note)		
At 1st January, 2017	612,477	1,817,105	2,429,582
Profit and total comprehensive income for the year	–	27,905	27,905
Final dividend for the year ended 31st December, 2016 paid	–	(50,372)	(50,372)
Interim dividend payable for the six months ended 30th June, 2017	–	(6,889)	(6,889)
At 31st December, 2017	612,477	1,787,749	2,400,226
Profit and total comprehensive income for the year	–	35,696	35,696
Final dividend for the year ended 31st December, 2017 paid	–	(56,098)	(56,098)
Interim dividend payable for the six months ended 30th June, 2018	–	(7,158)	(7,158)
At 31st December, 2018	**612,477**	**1,760,189**	**2,372,666**

Note: When sanctioning the reduction in the nominal value of the Company's shares in 1999, the High Court of the Hong Kong Special Administrative Region stipulated that the credit arising on the reduction be transferred to a special capital reserve, and that the reserve, which may be reduced by any increase in the issued share capital and share premium of the Company resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves, is not regarded as realised profit and distributable until all of the liabilities of the Company as at 22nd September, 1999, the date on which the reduction of share capital took effect, are settled. The liabilities of the Company at that date have not yet been fully settled as at 31st December, 2018, accordingly the special capital reserve is not considered distributable.

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

All the principal subsidiaries are incorporated and operating principally in Hong Kong except otherwise indicated. None of the subsidiaries had any debt securities outstanding as at 31st December, 2018 or at any time during the year.

Name of subsidiary	Paid up issued ordinary share/registered capital Number of shares 2018 & 2017	Share capital 2018 & 2017	Value of issued ordinary share/ registered capital held by 2018 Company %	2018 Subsidiaries %	2017 Company %	2017 Subsidiaries %	Principal activities
Babenna Limited ("Babenna")	2	HK$20	**100**	**–**	100	–	Investment holding
Beautiful Sky Investment Limited	2	HK$2	**100**	**–**	100	–	Hotel investment and operation and investment holding
Boutique Hotel Limited	2	HK$2	**100**	**–**	100	–	Hotel investment and operation
Grand View Hotel Limited ("Grand View ")	2,500,000	HK$2,500,000	**–**	**100**	–	100	Hotel management
Harbour Rich Industrial Limited	10,000	HK$10,000	**–**	**100**	–	100	Property investment
Himson Enterprises Limited	2	HK$2	**100**	**–**	100	–	Hotel investment and operation
Houston Venture Limited	2	HK$2	**100**	**–**	100	–	Property investment
King Express Development Limited (iii)	1	HK$1	**100**	**–**	100	–	Property investment
Magnificent International Hotel Limited	2	HK$2	**100**	**–**	100	–	Hotel investment and operation
Mercury Fast Limited	2	HK$2	**100**	**–**	100	–	Securities dealings and investment holding
Pacific Rich International Limited ("Pacific Rich ")	8	HK$8	**–**	**100**	–	100	Property investment
Shanghai Shun Ho (Lands Development) Limited (i)	1	US$1	**100**	**–**	100	–	Investment holding
上海順豪房地產發展有限公司 Shanghai Shun Ho Property Development Co., Ltd. (ii)	Registered capital	US$4,950,000	**–**	**100**	–	100	Hotel investment and operation
Shun Ho Capital Properties Limited (i)	1	US$1	**100**	**–**	100	–	Investment holding
Sino Money Investments Limited	10,000	HK$10,000	**–**	**100**	–	100	Hotel investment and operation
United Assets Company Limited	2,000,000	HK$2,000,000	**–**	**100**	–	100	Hotel investment and operation and investment holding

(i) Incorporated in the BVI and have no operation in Hong Kong.

(ii) Sino foreign co-operative company established and operating principally in the PRC.

(iii) Incorporated in Hong Kong and operating in the UK.

The directors are of the opinion that a complete list of the subsidiaries of the Company will be of excessive length and therefore the above list contains only the particulars of subsidiaries which principally affects the results or assets of the Group.

32. ACQUISITIONS OF SUBSIDIARIES

Acquisition of Sparkle Base Limited ("Sparkle Base")

On 20th March, 2018, a subsidiary of the Company, Babenna, entered into an agreement for the acquisition of 100% equity interests in Sparkle Base from an independent third party at a cash consideration of HK$38,191,000. The acquisition was completed during the year ended 31st December, 2018. The principal activity of Sparkle Base is holding a property located in Hong Kong. Accordingly, the transaction is accounted for as an acquisition of assets. The contribution from Sparkle Base to the Group's profit for the period between the date of acquisition and the end of the reporting period is not significant.

Acquisition of Pacific Rich

On 7th February, 2017, Babenna entered into an agreement for the acquisition of 100% equity interests in Pacific Rich for a consideration of HK$19,905,000. The acquisition was completed during the year ended 31st December, 2017. The principal activity of Pacific Rich is holding a property located in Hong Kong and recognised as property, plant and equipment at the date of acquisition amounting to HK$19,905,000. Accordingly, the transaction is accounted for as an acquisition of assets. The contribution from Pacific Rich to the Group's profit for the period between the date of acquisition and the end of the reporting period is not significant. On 4th March, 2019, Pacific Rich entered into an agreement with an independent third party, which Pacific Rich agreed to dispose of part of the property at a cash consideration of HK$21,800,000. The estimated value of the remaining part of the property held by Pacific Rich after the disposal is approximately HK$2,000,000.

Acquisition of Grand View Hotel Limited

On 19th June, 2017, Babenna entered into an agreement with its ultimate holding company for the acquisition of 100% equity interests in Grand View Hotel Limited for a consideration of HK$1. The acquisition was completed during the year ended 31st December, 2017. Grand View Hotel Limited acts as a hotel manager for a hotel owned by the Group and did not own the Grand View Hotel at any time during the year and up to the date of this report.

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which include the amounts due to immediate holding company and ultimate holding company disclosed in note 29, bank loans disclosed in note 22 (net of bank balances and cash), and equity attributable to owners of the Company, comprising issued capital, retained profits and other reserves as disclosed in the consolidated statement of changes in equity.

The management of the Group reviews the capital structure periodically. As a part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Currently, the management uses long term funding to finance its acquisition of investment properties, expenditure on prepaid lease payments and properties under development to minimise the finance costs. The Group will balance its overall capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debts.

There are no significant changes on the Group's approach to capital risk management during the year.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018	2017
	HK$'000	*HK$'000*
Financial assets		
Financial assets at amortised cost	**528,512**	–
Loans and receivables (including cash and cash equivalents)	**–**	634,714
Available-for-sale investments	**–**	377,370
Equity instruments at FVTOCI	**320,711**	–
	849,223	1,012,084
Financial liabilities		
Amortised cost	**476,757**	743,886

(b) Financial risk management objectives and policies

The management of the Group monitors and manages the financial risks relating to the operations of the Group through the monitoring procedures. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group does not enter into derivative financial instruments for hedging or speculative purpose.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risks.

(i) Foreign currency risk management

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Group				
GBP	**27**	29	**–**	–

34. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(i) Foreign currency risk management (Continued)

The following table details the Group's sensitivity to a 10% (2017: 10%) increase and decrease in Hong Kong dollars against the relevant foreign currency. 10% (2017: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2017: 10%) change in foreign currency rate. A positive number below indicates an increase in post-tax profit for the year where Hong Kong dollars weaken 10% (2017: 10%) against the relevant currency. For a 10% (2017: 10%) strengthening of Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit for the year, and the balances below would be negative.

	2018	2017
	HK$'000	*HK$'000*
GBP	**(3)**	(3)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to bank balances, amount due to immediate holding company, amount due to ultimate holding company and bank loans which are subject to floating interest rate. The Group currently does not have any interest rate hedging policy. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure. The Group's interest rate risk is mainly concentrated on the fluctuation of market interest rate on amount due to immediate holding company, amount due to ultimate holding company and bank loans.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

34. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(ii) Interest rate risk management (Continued)

Interest rate sensitivity

The sensitivity analysis for the Group below has been determined based on the exposure to interest rates for non-derivative instruments including floating-rate amount due to immediate holding company, amount due to ultimate holding company and bank loans at the end of the reporting period. For floating-rate financial instruments, the analysis is prepared assuming the amount of financial instruments are outstanding for the whole year. A 50 basis points (2017: 50 basis points) increase or decrease is used which represents management's assessment of the possible change in interest rate.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31st December, 2018 would decrease/increase by approximately HK$1,885,000 (2017: HK$3,020,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank loans.

The effect on bank balances has not been taken into account in preparing the sensitivity analysis because the effect involved is not significant.

(iii) Other price risk

The Group is exposed to other price risk arising from equity instruments at FVTOCI (2017: available-for-sale investments).

Other price sensitivity

The sensitivity analysis below have been determined based on the exposure to other price risk at the end of the reporting period. If the market price of the equity instruments at FVTOCI/available-for-sale investments (excluding the available-for-sale investments carried at cost less impairment) had been 10% higher/lower while all other variables were held constant, securities revaluation reserve for the year ended 31st December, 2018 would increase/decrease by approximately HK$32,071,000 (2017: HK$37,548,000), principally as a result of the changes in fair value of equity instruments at FVTOCI (2017: available-for-sale listed equity securities).

34. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(iv) Credit risk and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st December, 2018 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group measures the loss allowance on liquid funds equal to 12m ECL. The credit risk on liquid funds is limited because most of the cash and deposits are placed with reputable banks with external credit rating of at least A1 assigned by an international credit-rating agency.

The credit risk on bank balances is limited because the counterparties are a number of banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

34. FINANCIAL INSTRUMENTS (*Continued*)

(b) Financial risk management objectives and policies (*Continued*)

(iv) Credit risk and impairment assessment (Continued)

The Group's credit risk is primarily attributable to trade and other receivables and other deposits. The trade receivables presented in the consolidated statement of financial position are net of allowances for doubtful debts. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade and other receivables by reviewing the recoverable amount of each individual trade and other receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Based on the ECL assessment, the credit exposures for trade and other receivables, other deposits and bank balances, are considered as low risk of internal credit rating because the counterparties have a low risk of default and does not have material past-due amounts.

The Group has no significant concentration of credit risk on trade and other receivables and other deposits, with exposure spread over a number of counterparties and customers.

As at 31st December, 2018, the directors of the Company assessed the existing financial assets for impairment and considered that no credit loss allowance is recognised as the amount involved is insignificant.

(v) Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

At the end of the reporting period, the available banking facilities of the Group amounting to approximately HK$939 million (2017: HK$1,142 million), which was utilised to the extent of approximately HK$452 million (2017: HK$722 million).

34. FINANCIAL INSTRUMENTS (*Continued*)

(b) Financial risk management objectives and policies (*Continued*)

(v) Liquidity risk management (Continued)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank loans is prepared based on the scheduled repayment dates.

	Weighted average effective interest rate	**On demand or less than 1 month**	**1 – 3 months**	**3 months to 1 year**	**1 – 5 years**	**Total undiscounted cash flows**	**Carrying amount**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2018							
Non-interest bearing	**–**	**17,997**	**–**	**7,159**	**–**	**25,156**	**25,156**
Bank loans – variable interest rate	**2.34**	**154,782**	**3,958**	**17,817**	**286,832**	**463,389**	**451,601**
		172,779	**3,958**	**24,976**	**286,832**	**488,545**	**476,757**
Non-interest bearing (rental deposits received)	**–**	**–**	**–**	**65**	**1,552**	**1,617**	**1,617**
		172,779	**3,958**	**25,041**	**288,384**	**490,162**	**478,374**

	Weighted average effective interest rate	On demand or less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2017							
Non-interest bearing	–	13,756	–	6,889	–	20,645	20,645
Bank loans – variable interest rate	1.58	384,866	4,249	19,137	329,978	738,230	721,740
Other variable interest rate instruments	5.19	1,501	–	–	–	1,501	1,501
		400,123	4,249	26,026	329,978	760,376	743,886
Non-interest bearing (rental deposits received)	–	–	–	–	2,090	2,090	2,090
		400,123	4,249	26,026	332,068	762,466	745,976

34. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(v) Liquidity risk management (Continued)

The table below summarises the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand or less than 1 month" time band in the maturity analysis contained in the table above. Taking into account the Group's financial position, the directors of the Company do not consider that it is probable that the banks will exercise its discretion to demand immediate repayment. The directors of the Company believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments					
	Less than 1 month	**1 – 3 months**	**3 months to 1 year**	**1 – 5 years**	**Over 5 years**	**Total undiscounted cash flows**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2018	**2,163**	**4,203**	**80,770**	**70,941**	**1,174**	**159,251**
2017	3,867	7,620	226,450	135,670	28,965	402,572

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

(c) Fair values of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices; and

- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

34. FINANCIAL INSTRUMENTS (*Continued*)

(c) Fair values of financial instruments (*Continued*)

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial asset	2018	2017	Fair value hierarchy	Valuation technique(s) and key input(s)
	HK$'000	*HK$'000*		
Listed equity securities classified as available-for-sale investments	**–**	375,475	Level 1	Quoted bid prices in an active market
Equity instruments at FVTOCI	**320,711**	–	Level 1	Quoted bid prices in an active market

Except for certain available-for-sale investments which were stated at cost, the directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payable (included in other payables)	Bank loans	Dividend payable (included in other payables)	Amount due to immediate holding company	Amount due to ultimate holding company	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2017	218	683,786	1,992	4,898	–	690,894
Financing cash inflows	–	447,025	–	621	1,501	449,147
Financing cash outflows	(10,953)	(441,953)	(16,553)	(41,329)	–	(510,788)
Dividends declared	–	–	16,553	40,708	–	57,261
Interest expenses	11,085	–	–	–	–	11,085
Foreign exchange translations	–	32,882	–	–	–	32,882
At 31st December, 2017	350	721,740	1,992	4,898	1,501	730,481
Financing cash inflows	–	–	–	15,561	–	15,561
Financing cash outflows	(13,784)	(250,862)	(18,207)	(60,341)	(1,501)	(344,695)
Dividends declared	–	–	18,286	44,970	–	63,256
Interest expenses	13,759	–	–	–	–	13,759
Foreign exchange translations	–	(19,277)	–	–	–	(19,277)
At 31st December, 2018	**325**	**451,601**	**2,071**	**5,088**	**–**	**459,085**

Financial Summary

CONSOLIDATED RESULTS

	For the year ended 31st December,				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	648,423	507,772	476,333	522,432	**579,673**
Operating profit and profit before taxation	969,124	176,853	153,227	182,660	**297,812**
Income tax expense	(54,240)	(31,152)	(20,003)	(30,486)	**(37,463)**
Profit before non-controlling interests	914,884	145,701	133,224	152,174	**260,349**
Non-controlling interests	(9,212)	(1,645)	–	–	**–**
Profit for the year	905,672	144,056	133,224	152,174	**260,349**

CONSOLIDATED NET ASSETS

	As 31st December,				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Property, plant and equipment	2,324,497	2,667,279	2,699,402	2,650,413	**2,690,769**
Prepaid lease payments for land (non-current portion)	33,440	30,765	27,898	29,528	**27,105**
Investment properties	3,082,700	260,000	927,250	1,055,800	**1,099,300**
Properties under development	382,339	102,981	56,369	74,157	**–**
Other non-current assets	257,036	485,398	356,071	377,370	**320,711**
Net current assets (liabilities)	347,860	345,395	(202,330)	187,738	**301,762**
Non-current bank loans	–	–	–	(317,646)	**(278,866)**
Non-current rental deposits received	(33,724)	(2,654)	(1,880)	(2,090)	**(1,552)**
Deferred lax liabilities	(117,530)	(93,294)	(92,787)	(93,997)	**(97,568)**
Non-controlling interests	(117,772)	–	–	–	**–**
Net assets attributable to owners of the Company	6,158,846	3,795,870	3,769,993	3,961,273	**4,061,661**

Major Properties

HOTEL PROPERTIES

Location	Type of use	Lease term	Group's attributable interest
Best Western Plus Hotel Hong Kong No. 308 Des Voeux Road West Hong Kong	Hotel	Long lease	100%
Best Western Plus Hotel Kowloon Nos. 73-75 Chatham Road South Tsimshatsui, Kowloon	Hotel	Medium-term lease	100%
Best Western Grand Hotel No. 23 Austin Avenue Tsimshatsui Kowloon, Hong Kong	Hotel	Medium-term lease	100%
Best Western Hotel Causeway Bay No. 38 Bowrington Road Causeway Bay Hong Kong	Hotel	Medium-term lease	100%
Ramada Hong Kong Harbour View No. 239 Queen's Road West Hong Kong	Hotel	Long lease	100%
Magnificent International Hotel No. 381 Xizang Road South Shanghai, The PRC	Hotel	Medium-term lease	100%
Grand City Hotel No. 338 Queen's Road West Hong Kong	Hotel	Long lease	100%
Royal Scot Hotel 100 King's Cross Road London, WC1X 9DT England	Hotel	Freehold	100%