



REGAL REIT

富豪產業信託

Regal Real Estate Investment Trust

(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))
(Stock Code : 1881)

INTERIM REPORT 2019



Managed by



富豪資產管理有限公司
Regal Portfolio
Management Limited



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CORPORATE INFORMATION

MANAGER OF REGAL REIT

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BOARD OF DIRECTORS OF THE REIT MANAGER

Non-executive Directors

Lo Yuk Sui (Chairman)
Lo Po Man (Vice Chairman)
Donald Fan Tung
Jimmy Lo Chun To
Kenneth Ng Kwai Kai

Executive Directors

Johnny Chen Sing Hung
Simon Lam Man Lim

Independent Non-executive Directors

John William Crawford, JP
Bowen Joseph Leung Po Wing, GBS, JP
Kai Ole Ringenson
Abraham Shek Lai Him, GBS, JP

AUDIT COMMITTEE OF THE REIT MANAGER

John William Crawford, JP (Chairman)
Bowen Joseph Leung Po Wing, GBS, JP
Kai Ole Ringenson
Abraham Shek Lai Him, GBS, JP
Kenneth Ng Kwai Kai

DISCLOSURE COMMITTEE OF THE REIT MANAGER

John William Crawford, JP (Chairman)
Johnny Chen Sing Hung
Simon Lam Man Lim
Donald Fan Tung
Kenneth Ng Kwai Kai
Kai Ole Ringenson

RESPONSIBLE OFFICERS OF THE REIT MANAGER

Johnny Chen Sing Hung
Simon Lam Man Lim
Wesley Chan Hiu Yeung

SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

TRUSTEE OF REGAL REIT

DB Trustees (Hong Kong) Limited (the "Trustee")

AUDITOR

Ernst & Young

PRINCIPAL VALUER

CBRE Limited

PRINCIPAL BANKERS

Australia and New Zealand Banking Group Limited
The Bank of East Asia, Limited
Cathay United Bank Company, Limited, Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
Crédit Agricole Corporate & Investment Bank,
Hong Kong Branch
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited
Oversea-Chinese Banking Corporation Limited,
Hong Kong Branch
Sumitomo Mitsui Banking Corporation
United Overseas Bank Limited

LEGAL ADVISER

Baker & McKenzie

UNIT REGISTRAR

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WEBSITE

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Dear Unitholders,

I am pleased to present, on behalf of the Board of Directors of Regal Portfolio Management Limited as the REIT Manager, the 2019 Interim Report of Regal Real Estate Investment Trust.

FINANCIAL RESULTS

For the Interim Period ended 30th June, 2019, Regal REIT recorded an unaudited consolidated loss before distribution to Unitholders of HK\$362.9 million, as compared to the profit of HK\$942.9 million for the corresponding period in 2018. The loss recorded for the Interim Period was principally attributable to the reduction of HK\$585.1 million in the fair value of Regal REIT's investment property portfolio, based on the market valuations appraised by its principal valuer as of 30th June, 2019, as compared to the last appraised value as of 31st December, 2018. While for the corresponding period last year, a fair value gain of HK\$716.0 million was recorded. If these fair value changes are excluded, the core operating profit before distribution to Unitholders for the Interim Period would amount to HK\$222.1 million, slightly below the HK\$226.9 million for the same period in 2018.

Total distributable income for the Interim Period, after taking into account the various non-cash adjustments, amounted to HK\$231.6 million (equivalent to approximately HK\$0.071 per Unit), as compared to HK\$241.7 million (equivalent to approximately HK\$0.074 per Unit) attained for the corresponding period in 2018.

In accordance with Regal REIT's policy of distributing no less than 90% of the distributable income, the Directors of the REIT Manager have declared an interim distribution of HK\$0.068 per Unit for the six months ended 30th June, 2019 (2018 interim distribution – HK\$0.074 per Unit), which represents a distribution ratio of approximately 95.7% for the Interim Period.

HOTEL MARKET AND BUSINESS REVIEW

According to a recent research report by the World Bank Group, global growth has continued to soften in the first half of 2019. The outlook for global growth for the full year has been adjusted downward to 2.6 percent, 0.3 percentage point below previous forecasts, reflecting that international trade and investment was weaker than expected at the start of the year. During the period under review, China's economy expanded by 6.3% over the same period in 2018. However, weighed down by the softness in manufacturing output due to the escalated trade disputes with the United States, trade flows have been weak. Affected by this unfavourable external climate, Hong Kong's economy also slowed down in the first six months of 2019 and the overall performance across a wide spectrum of economic sectors recorded a visible decline. During this period, the Gross Domestic Product (GDP) in real terms of Hong Kong only increased by 0.5% year-on-year, which was much lower than the GDP growth rate of 4.0% for the same period last year.

For the period under review, total visitors to Hong Kong amounted to approximately 34.9 million, representing an increase of 13.9% year-on-year, of which 27.6 million were visitors from Mainland China, an increase of 16.4% year-on-year. Of the total arrivals, overnight visitors accounted for approximately 14.9 million, which posted an increase of 7.7% year-on-year. The number of visitors from other short-haul markets (excluding Mainland China and the Macau SAR) had a modest growth of 3.7% but those from the traditional long-haul markets were marginally below the level in the first six months last year. On the other hand, the number of visitors from Mainland China under the Individual Visit Scheme has seen a gradual decrease from over 3.6 million in January to just over 2.3 million in June this year.

Based on the information published by the Hong Kong Tourism Board, the average hotel room occupancy level for all the surveyed hotels under different categories in Hong Kong for the half year ended 30th June was down from 91% in 2018 to 90% in 2019, while the average achieved room rate also shrank by 0.2%, thus resulting in a reduction in the Revenue per Available Room (RevPAR) of 1.3% year-on-year.

During the first half of 2019, the business environment for the hospitality industry in Hong Kong was becoming more competitive and hotel operators were faced with increasing pressure on room rates, particularly towards the end of the second quarter. The combined average occupancy of the five Initial Hotels in Hong Kong, which operate as full-service hotels under the “Regal” brand name, during the Interim Period was 86.3%, as compared to 86.7% for the same period last year. Meanwhile, their combined average room rate decreased by 1.1%, with their combined RevPAR consequently dropping by 1.6% year-on-year. Aggregate net property income for the Initial Hotels for the Interim Period amounted to HK\$378.4 million, which was 7.0% below the HK\$406.8 million attained for the same period in 2018. The prevailing aggregate base rent for 2019 for the Initial Hotels, which are leased to a wholly-owned subsidiary of Regal Hotels International Holdings Limited (“RHIHL”), the immediate listed holding company of Regal REIT, was HK\$776.0 million. As the aggregate net property income of these five hotels for the Interim Period was below the pro-rated base rent of HK\$388.0 million, no variable rent was earned.

Apart from the five Initial Hotels, Regal REIT also owns four other hotel properties in Hong Kong, all under the “iclub by Regal” brand name. The “iclub” brand is a separate line of hotels developed by the RHIHL Group, which are typically positioned as upscale select-service hotels, with contemporary designs and stylish décors, and equipped with tech-savvy facilities.

The iclub Wan Chai Hotel was the first iclub hotel in Hong Kong and has been self-operated by Regal REIT since 2011. During the Interim Period, it maintained an occupancy rate of 94.5%, which was 1.4 percentage points higher than the same period last year. However, as its average room rate decreased by 5.1%, its average RevPAR contracted by 3.8% year-on-year. The net property income from this property, including the lease rentals from the non-hotel portions, amounted to HK\$11.2 million for the Interim Period, which was 5.9% below the comparative amount last year.

The other three iclub hotels, namely, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the iclub Ma Tau Wai Hotel have also been leased to the same RHIHL lessee. The prevailing base rent for 2019 for each of the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel, as determined by an independent professional property valuer in accordance with the terms of the leases, was HK\$46.0 million. During the Interim Period, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel attained a combined average occupancy rate of 93.4%, an increase of 4.7 percentage points over the level in the corresponding period in 2018. Although their combined average room rate decreased by 2.9%, their combined average RevPAR overall improved by 2.3% year-on-year. As the net property income for the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel was in each case below their pro-rated base rents of HK\$23.0 million for the half year, only the base rents were earned. The iclub Ma Tau Wai Hotel, acquired by Regal REIT in September 2017, was leased for an initial term of 5 years with escalating fixed rentals at an average yield of 4.5% per annum. For the Interim Period, the iclub Ma Tau Wai Hotel earned fixed rental receipts of HK\$28.9 million.

In July 2019, Regal REIT concluded the refinancing of a 5-year term loan in the principal amount of HK\$440.0 million, secured by a mortgage over the iclub Wan Chai Hotel. Through this refinancing arrangement, Regal REIT was able to achieve a reduction in the loan interest margin, which will generate some savings on Regal REIT’s future financing costs.



BUSINESS OUTLOOK

Apart from the slowing global demand, the overall external environment is still overshadowed by many uncertainties, including the trade and other disputes between China and the United States, the situation on Brexit and the geopolitical tensions in different regions. These unfavourable external factors are already affecting Hong Kong's trade performance and overall economic growth.

The demonstrations and protests in Hong Kong since June this year have led to some social unrest in the local community and adverse publicity internationally. These recent events have also seriously affected the businesses of many different trades in Hong Kong, particularly, the tourism, retail and food and beverage business sectors. If this adverse situation is not well contained in time, the economy of Hong Kong may well further deteriorate.

The operating performances of the hotels in Hong Kong owned by Regal REIT, during the month of July and in August to date, have been well below earlier forecasts. If the hospitality market does not recover in the near term, it may have adverse impacts on their market valuations this coming year end as well as the relevant market rental packages for 2020. However, as these hotels, except for the iclub Wan Chai Hotel which is self-operated, are either leased on pre-determined annual base rents, or as in the case of one hotel, is still within the initial fixed rental period, any fluctuations in their net property incomes during the second half of this year are to some extent buffered.

Nevertheless, looking ahead, the Directors of the REIT Manager still believe in the resilience of the economy of Hong Kong and the integrity of its operating systems and that Hong Kong will be able to overcome these challenges to remain an international business and tourism hub in the region. Regal REIT will continue to consider, though with added prudence, appropriate acquisition opportunities that can strengthen its hotel portfolio and enhance its earnings in the future.

Lo Yuk Sui
Chairman

Regal Portfolio Management Limited
(as the REIT Manager of Regal REIT)

Hong Kong, 26th August, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of the REIT Manager are pleased to report the unaudited interim results of Regal Real Estate Investment Trust (“Regal REIT”) and its subsidiaries (collectively, the “Group”) for the six-month period from 1st January, 2019 to 30th June, 2019 (the “Interim Period”).

LONG-TERM OBJECTIVES AND VISION OF REGAL REIT

The primary objectives of Regal REIT and the REIT Manager are to provide long-term stable, growing distributions and capital growth for the unitholders of Regal REIT (the “Unitholders”) through active ownership of hotels and strategic investments in hotels, serviced apartments and/or commercial properties (including office and retail properties).

The visions of Regal REIT and the REIT Manager are to build up the existing portfolio of hotel properties in Hong Kong comprised of: (a) Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the “Initial Hotels”); and (b) iclub Wan Chai Hotel, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel (collectively, the “iclub Hotels”), and to be a pre-eminent owner of quality international hotels and other properties with a primary focus in Hong Kong as well as to reinforce Regal REIT’s status as a growing attractive option for investors.

THE REIT MANAGER AND THE TRUSTEE

The REIT Manager is licenced by the Securities and Futures Commission in Hong Kong (the “SFC”) to undertake the regulated activities of asset management. The REIT Manager does not manage the five Initial Hotels or the four iclub Hotels directly.

The Trustee is DB Trustees (Hong Kong) Limited, a wholly-owned subsidiary of Deutsche Bank AG. The Trustee is qualified to act as a trustee for collective investment schemes authorised under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”). In this role, the Trustee holds the assets of Regal REIT in trust for the benefit of the Unitholders as a whole and oversees the activities of the REIT Manager for compliance with the trust deed constituting Regal REIT (the “Trust Deed”) and all regulatory requirements.

THE RHIHL LESSEE AND THE HOTEL MANAGER

The Initial Hotels are leased to Favour Link International Limited (the “RHIHL Lessee”), a wholly-owned subsidiary of Regal Hotels International Holdings Limited (“RHIHL”, together with its relevant subsidiaries, collectively, the “RHIHL Group”), with lease terms to expire on 31st December, 2020 under the relevant lease agreements and supplemental lease agreements (together, the “Initial Hotels Lease Agreements”). During the Interim Period, the lessors and the RHIHL Lessee have initiated discussions in respect of further extensions for the five leases in respect of the Initial Hotels to go beyond 2020. The REIT Manager will make public disclosures once agreements have been reached.

Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL, was appointed as the hotel manager (the “Hotel Manager”) under long-term hotel management agreements to operate the Initial Hotels (the “Initial Hotels Management Agreements”) for a term of twenty years from 16th March, 2007. In December 2010, Regal REIT entered into another hotel management agreement with the Hotel Manager for the operation of the hotel portion of iclub Wan Chai Hotel for a term of ten years from 1st January, 2011 to 31st December, 2020 (the “Wan Chai Hotel Management Agreement”). Since 1st January, 2011, the iclub Wan Chai Hotel has been self-operated and not leased out by Regal REIT.

On 10th February, 2014, Regal REIT acquired the iclub Sheung Wan Hotel and leased it to the RHIHL Lessee for hotel operations for the period from 10th February, 2014 to 31st December, 2019 under a lease agreement (the "SW Lease Agreement"), which is extendable at the option of Regal REIT for a further five years. On 17th May, 2019, Regal REIT had exercised its option to extend the lease term of the iclub Sheung Wan Hotel for a further five year period, commencing from 1st January, 2020 and expiring on 31st December, 2024 (both days inclusive). The Hotel Manager was appointed as the hotel manager of the iclub Sheung Wan Hotel under a 10-year hotel management agreement (the "SW Hotel Management Agreement") commencing on 10th February, 2014.

On 28th July, 2014, Regal REIT also acquired the iclub Fortress Hill Hotel and leased it to the RHIHL Lessee for hotel operations for the period from 28th July, 2014 to 31st December, 2019 under a lease agreement (the "FH Lease Agreement"), which is extendable at the option of Regal REIT for a further five years. On 17th May, 2019, Regal REIT had exercised its option to extend the lease term of the iclub Fortress Hill Hotel for a further five year period, commencing from 1st January, 2020 and expiring on 31st December, 2024 (both days inclusive). The Hotel Manager was also appointed as the hotel manager of the iclub Fortress Hill Hotel under a 10-year hotel management agreement (the "FH Hotel Management Agreement") commencing on 28th July, 2014.

On 4th September, 2017, Regal REIT acquired the iclub Ma Tau Wai Hotel and leased it to the RHIHL Lessee for hotel operations for a term of five years commencing on 4th September, 2017 under a lease agreement (the "MTW Lease Agreement"), which is extendable at the option of Regal REIT for a further term to 31st December, 2027. The Hotel Manager was appointed as the hotel manager of the iclub Ma Tau Wai Hotel under a 10-year hotel management agreement (the "MTW Hotel Management Agreement") commencing on 4th September, 2017.

HOTEL PORTFOLIO

The portfolio of nine hotel properties of Regal REIT are strategically located in different districts in Hong Kong, enabling hotel guests to have easy and convenient access to the mass transit network and other public transportation networks. The Regal REIT's hotel portfolio is comprised of two hotel types, namely, full-service hotels, which offer a wide range of services including food and beverage outlets and other facilities, and select-service hotels, which offer contemporary design and are equipped with tech-savvy facilities.

Hotel Types	District Location	No. of Rooms	Operations Mode
<i>Full-service hotels:</i>			
Regal Airport Hotel	Chek Lap Kok	1,171	Under Lease
Regal Hongkong Hotel	Causeway Bay	481	Under Lease
Regal Kowloon Hotel	Tsim Sha Tsui	600	Under Lease
Regal Oriental Hotel	Kowloon City	494	Under Lease
Regal Riverside Hotel	Shatin	1,138	Under Lease
		<hr/>	
		3,884	
<i>Select-service hotels:</i>			
iclub Wan Chai Hotel	Wan Chai	99	Self-operated
iclub Sheung Wan Hotel	Sheung Wan	248	Under Lease
iclub Fortress Hill Hotel	Fortress Hill	338	Under Lease
iclub Ma Tau Wai Hotel	Ma Tau Wai	340	Under Lease
		<hr/>	
		1,025	
		<hr/>	
Total		4,909	

RENTAL AND REVENUE STRUCTURE

Initial Hotels - Rental Structure and Market Rental Packages

Pursuant to the Initial Hotels Lease Agreements, for the years 2011 to 2020, the rental packages in respect of the Initial Hotels are determined on a yearly basis by a jointly appointed independent professional property valuer. The determinations include the amount of market rents (inclusive of the amount of base rent (the "Base Rent") for each Initial Hotel, the variable rent (the "Variable Rent") sharing percentage and the RHIHL Lessee's contributions to the furniture, fixtures and equipment (the "FF&E") reserve calculated as a percentage of total hotel revenue) to be applied for each of the Initial Hotels for the relevant respective years from 2011 to 2020, together with the amount of the security deposit required (collectively, the "IH Market Rental Package").

IH Market Rental Package for 2019

An independent professional property valuer, Mr. David Faulkner, was jointly appointed in June 2018 to conduct rent reviews for the Initial Hotels for 2019. According to the determination of the IH Market Rental Package for 2019, the aggregate amount payable by the RHIHL Lessee as Base Rent was determined to be HK\$776.0 million, with Variable Rent continuing to be based on sharing 50% of the excess of the aggregate net property income ("NPI") from the operations of the Initial Hotels over the aggregate Base Rent thereof in 2019. No FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessors.

The RHIHL Lessee has provided third party guarantees as security deposits for an aggregate amount of HK\$194.0 million, which is equivalent to three months' aggregate Base Rent of the Initial Hotels for 2019. Details of the IH Market Rental Package for 2019 can be referred to in an announcement published by the REIT Manager on 5th October, 2018.

IH Market Rental Package for 2020

The market rental review for the Initial Hotels for 2020 is to be conducted by Ms. Stella Ho, a newly appointed independent professional property valuer, and the IH Market Rental Package for 2020 will be determined and reported before the end of September 2019.

iclub Wan Chai Hotel - Revenue Structure

Hotel Portion

The hotel portion of iclub Wan Chai Hotel, which is under an owner-operate mode, is managed by the Hotel Manager under the Wan Chai Hotel Management Agreement. Since 1st January, 2011, gross hotel revenue and the associated operating costs and expenses are accounted for directly by Regal REIT.

Non-hotel Portions

iclub Wan Chai Hotel - non-hotel portions, comprised of a portion of the ground floor and the 27th to 29th floors of the premises, are let out to generate monthly rental income.

iclub Sheung Wan Hotel – Rental Structure and Market Rental Package

Pursuant to the SW Lease Agreement, the RHIHL Lessee is obligated to pay rentals in respect of the iclub Sheung Wan Hotel to Regal REIT for the original period from 10th February, 2014 to 31st December, 2019. On 17th May, 2019, the lease term was extended for another five years from 1st January, 2020 to 31st December, 2024 (both days inclusive) at the sole discretion of the Lessor, while all the other key terms and conditions of the SW Lesase Agreement remain unchanged.

Regal REIT received fixed rentals for the leasing of the iclub Sheung Wan Hotel from 10th February, 2014 to 9th February, 2017. Rental receipts for the first three years of the lease term were determined to be HK\$79.00 million, HK\$82.95 million and HK\$86.90 million, respectively.

Market rental reviews by a jointly appointed independent professional property valuer take place for each of the remaining periods of the lease term to determine the market rental components (comprising the Base Rent, Variable Rent and lessee's contribution to the FF&E reserve) together with the amount of the security deposit required (collectively, the "SW Market Rental Package").

SW Market Rental Package for 2019

The same independent professional property valuer, Mr. David Faulkner, was jointly appointed in June 2018 to conduct a rent review for the iclub Sheung Wan Hotel for 2019. According to the determination of the SW Market Rental Package for 2019, the Base Rent payable by the RHIHL Lessee is HK\$46.0 million, with Variable Rent to be based on 50% of the excess of the NPI over the Base Rent. No FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessor.

The RHIHL Lessee has provided a third party guarantee as a security deposit for an amount of HK\$11.751 million, which is equivalent to three months' Base Rent together with rates and Government rents of the iclub Sheung Wan Hotel for 2019. Details of the SW Market Rental Package for 2019 can be referred to in an announcement published by the REIT Manager on 5th October, 2018.

SW Market Rental Package for 2020

The market rental review for the iclub Sheung Wan Hotel for 2020 is to be conducted by Ms. Stella Ho, the newly appointed independent professional property valuer, and the SW Market Rental Package for 2020 will be determined and reported before the end of September 2019.

iclub Fortress Hill Hotel – Rental Structure and Market Rental Package

Pursuant to the FH Lease Agreement, the RHIHL Lessee is obligated to pay rentals in respect of the iclub Fortress Hill Hotel to Regal REIT for the original period from 28th July, 2014 to 31st December, 2019. On 17th May, 2019, the lease term was extended for another five years from 1st January, 2020 to 31st December, 2024 (both days inclusive) at the sole discretion of the Lessor, while all other key terms and conditions of the FH Lesase Agreement remain unchanged.

Regal REIT received fixed rentals for the leasing of the iclub Fortress Hill Hotel from 28th July, 2014 to 27th July, 2017. Rental receipts for the first three years of the lease term were determined to be HK\$82.50 million, HK\$86.625 million and HK\$90.75 million, respectively.

Market rental reviews by a jointly appointed independent professional property valuer take place for each of the remaining periods of the lease term to determine the market rental components (comprising the Base Rent, Variable Rent and lessee's contribution to the FF&E reserve) together with the amount of the security deposit required (collectively, the "FH Market Rental Package").

FH Market Rental Package for 2019

The same independent professional property valuer, Mr. David Faulkner, was jointly appointed in June 2018 to conduct a rent review for the iclub Fortress Hill Hotel for 2019. According to the determination of the FH Market Rental Package for 2019, the Base Rent payable by the RHIHL Lessee is HK\$46.0 million, with Variable Rent to be based on 50% of the excess of the NPI over the Base Rent with no FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessor.

The RHIHL Lessee has provided a third party guarantee as a security deposit for an amount of HK\$11.879 million, which is equivalent to three months' Base Rent together with rates and Government rents of the iclub Fortress Hill Hotel for 2019. Details of the FH Market Rental Package for 2019 can be referred to in an announcement published by the REIT Manager on 5th October, 2018.

FH Market Rental Package for 2020

The market rental review for the iclub Fortress Hill Hotel for 2020 is to be conducted by Ms. Stella Ho, the newly appointed independent professional property valuer, and the FH Market Rental Package for 2020 will be determined and reported before the end of September 2019.

iclub Ma Tau Wai Hotel – Rental Structure

Pursuant to the MTW Lease Agreement, the RHIHL Lessee is obligated to pay rentals in respect of the iclub Ma Tau Wai Hotel to Regal REIT for the period from 4th September, 2017 to 3rd September, 2022, which is extendable at the option of Regal REIT for a further term to 31st December, 2027.

Regal REIT receives fixed rentals for the leasing of the iclub Ma Tau Wai Hotel from 4th September, 2017 to 3rd September, 2022. Annual rental receipts for the initial five years of the lease term have been determined to be HK\$54.4 million, HK\$57.8 million, HK\$61.2 million, HK\$64.6 million and HK\$68.0 million, respectively.

Annual rent reviews by a jointly appointed independent professional property valuer will take place for each of any extension periods to determine the market rental components (comprising the Base Rent, Variable Rent and lessee's contribution to the FF&E reserve) together with the amounts of security deposits required.

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under the respective Initial Hotels Lease Agreements, the Wan Chai Hotel Management Agreement, the SW Lease Agreement and the FH Lease Agreement to maintain reserves to fund expenditures for replacements of FF&E in the respective hotels during the Interim Period. Pursuant to the MTW Lease Agreement, the RHIHL Lessee is required to fund the actual costs of any replacements and/or additional FF&E in the iclub Ma Tau Wai Hotel for the whole lease term.

During the Interim Period, Regal REIT contributed amounts equal to 2% of the total hotel revenue (i.e. the total of room revenue, food and beverage revenue and/or other income of the hotel properties) for each month and, as a result, HK\$20.6 million was contributed to the FF&E reserve with corresponding expenditures of HK\$21.4 million being recorded for the purposes intended.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the Interim Period are set out in the condensed consolidated financial statements.

Hotel Industry Conditions in Hong Kong

Visitor Arrivals to Hong Kong, 1H 2019 versus 1H 2018¹

Visitors to Hong Kong by Geographical Regions	1H 2019 (Percentage of total visitors)	1H 2019 (No. of visitors)	1H 2018 (No. of visitors)	Variance (No. of visitors)	Variance (%)
Mainland China	79.07%	27,573,517	23,688,868	3,884,649	16.4%
South & Southeast Asia	5.45%	1,900,330	1,787,761	112,569	6.3%
North Asia	4.05%	1,411,605	1,348,655	62,950	4.7%
Taiwan	2.65%	923,988	948,759	(24,771)	(2.6%)
Europe, Africa & the Middle East	3.11%	1,083,136	1,105,659	(22,523)	(2.0%)
The Americas	2.66%	926,805	932,998	(6,193)	(0.7%)
Australia, New Zealand & South Pacific	1.01%	353,710	334,789	18,921	5.7%
Macau SAR/Not identified	2.00%	698,765	458,550	240,215	52.4%
Total	100%	34,871,856	30,606,039	4,265,817	13.9%
Overnight visitors included in above	42.8%	14,920,241	13,856,125	1,064,116	7.7%

During the first half of 2019, the visitor arrival numbers reported an increase of approximately 4.3 million, representing a rise of 13.9% year-on-year.

Mainland China visitors increased by 16.4%, reaching approximately 27.6 million and accounting for 79.1% of the total arrivals to Hong Kong during the period.

Arrivals from short-haul markets comprising other Asian regions (including North Asia, South & Southeast Asia, Taiwan and Macau SAR), recorded a gain of 8.6%, aggregating 4.9 million and representing 14.2% of the total visitor arrivals to Hong Kong.

Visitors from long-haul markets remained stable and recorded a minor drop. Visitor arrivals slightly decreased by 0.4%, with total arrivals aggregating to 2.4 million. Visitors from the Americas recorded a drop of 0.7%, and, thereby, taking up 2.7% of total visitors. Arrivals from the Europe, Africa and the Middle East markets also recorded a drop of 2.0%, with the visitor numbers reaching approximately 1.1 million or 3.1% of total arrivals.

During the period, overnight staying visitors amounted to about 14.9 million, representing 42.8% of total arrivals, with growth of 7.7% as compared to the same period last year.

¹ Source: Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Jun 2019", July 2019; "Visitor Arrival Statistics – Jun 2018", July 2018; the REIT Manager.

Review of Hotel Rooms Supply in Hong Kong

During the first quarter of 2019, the hotel room supply in Hong Kong reported an increase by 1,673 units, reflecting growth of 2.1% from 81,465 to 83,138 rooms. During the period, six new hotel properties opened. The number of hotel properties increased from 291 to 297, representing an increase by 2.1%. By the end of 2019, it is projected that the hotel room supply will reach 85,908 (FY2018: 81,465 units), for an anticipated growth of around 5.5% over the previous year.²

Industry Performance

Room Occupancy Rates, Average Room Rates and RevPAR (Revenue per available room) of the different categories of hotels are summarized below.

Category	Hong Kong Hotel Market Performance (1H 2019 versus 1H 2018) ³					
	Room Occupancy Rates		Average Room Rates		RevPAR	
	1H 2019	1H 2018	1H 2019	1H 2018	1H 2019	1H 2018
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	87	88*	2,094	2,112*	1,822	1,859*
High Tariff B	90	91	1,142	1,126*	1,028	1,025*
Medium Tariff	92	92	753	759*	693	698*
All Hotels	90	91	1,329	1,332*	1,196	1,212*

* revised figures by the Hong Kong Tourism Board

During the first half of 2019, though there was an increase in the number of overnight visitors, the overall hotel occupancy rate slightly dropped by 1.1%, which was down by 1 percentage point year-on-year, while the industry-wide average room rate also dropped by 0.2% to HK\$1,329 per night. Both factors contributed to a small decrease to the hotel industry's RevPAR by about HK\$16 or 1.3% year-on-year.

Performance Highlights of Regal REIT

Regal REIT currently has an aggregate of 4,909 guestrooms and suites in nine hotel properties, with a total gross floor area of approximately 236,763 square meters, that are strategically located in Hong Kong.

The financial performance of Regal REIT with regard to operating results and net asset value rely on the underlying performance of the respective hotel businesses operated by the RHIHL Lessee and the self-operated iclub Wan Chai Hotel, all under the management of the Hotel Manager. The lease rentals provide secured income protection while Regal REIT will still be eligible to earn variable rent for the Initial Hotels, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel from sharing of the respective excess NPIs over the base rents.

Overall, the property portfolio of Regal REIT achieved an operating performance which is at a similar level compared to the performance of the Hong Kong hotel market during the period under review.

2 Source: Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Mar 2019", May 2019; the REIT Manager.

3 Source: Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Jun 2019", July 2019; the REIT Manager.

Performance of the Initial Hotels

Total hotel revenue, gross operating profit and net property income and statistics for the combined Initial Hotels for 1H 2019 versus 1H 2018 are set out below.

	1H 2019 HK\$'million	1H 2018 HK\$'million	Variance HK\$'million	Variance %
Operating Results				
Room revenue	632.6	643.0	(10.4)	(1.6%)
Food and beverage revenue	291.7	314.4	(22.7)	(7.2%)
Other income	14.8	15.5	(0.7)	(4.5%)
Total hotel revenue	939.1	972.9	(33.8)	(3.5%)
Operating expenses	(549.4)	(553.6)	4.2	0.8%
Gross operating profit	389.7	419.3	(29.6)	(7.1%)
Other expenses	(35.5)	(34.0)	(1.5)	(4.4%)
Net rental income	24.2	21.5	2.7	12.6%
Net property income	378.4	406.8	(28.4)	(7.0%)
Statistics				
Average room rate	HK\$1,042.21	HK\$1,054.28	(HK\$12.07)	(1.1%)
Occupancy rate	86.3%	86.7%	(0.4%)	(0.5%)
RevPAR	HK\$899.33	HK\$914.36	(HK\$15.03)	(1.6%)
Total available room nights	703,004	703,004	—	—
Occupied room nights	606,626	609,702	(3,076)	(0.5%)

The business environment in the hospitality industry in Hong Kong during the first half of this year became more competitive, with hotel operations facing increasing pressure on room rates. For the Initial Hotels, total hotel revenue recorded a year-on-year decrease of HK\$33.8 million or by 3.5% to HK\$939.1 million (1H 2018: HK\$972.9 million). Gross operating profit reduced HK\$29.6 million or 7.1% to HK\$389.7 million (1H 2018: HK\$419.3 million). As a result, the NPI achieved HK\$378.4 million, representing a decrease of HK\$28.4 million or 7.0% as compared with the same period last year (1H 2018: HK\$406.8 million).

For the period under review, the average occupancy rate of the Initial Hotels attained a combined 86.3% (1H 2018: 86.7%). The average room rate recorded a decrease of 1.1%, reaching HK\$1,042.21 (1H 2018: HK\$1,054.28). As a result, the RevPAR of the Initial Hotels was HK\$899.33 (1H 2018: HK\$914.36), representing a decrease of 1.6% year-on-year.

Base Rent

According to the IH Market Rental Package for 2019, Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis. During the Interim Period, Regal REIT earned and received aggregate Base Rent of HK\$388.0 million.

Variable Rent

Regal REIT is entitled to receive Variable Rent through the sharing of aggregate profits from the Initial Hotels' operations over the Base Rent payments. For the period under review, as the aggregate NPI from hotel operations of the Initial Hotels was HK\$378.4 million, which fell short of the aggregate Base Rent of HK\$388.0 million, no Variable Rent was earned for the period.

Performance of iclub Wan Chai Hotel

During the period under review, the average occupancy rate of iclub Wan Chai Hotel was 94.5% with an average room rate of HK\$1,016.30 or a decrease of 5.1% from the HK\$1,071.43 as reported in the same period last year.

For the six months ended 30th June, 2019, iclub Wan Chai Hotel - hotel portion contributed gross hotel revenue of HK\$17.2 million and incurred operating costs and expenses amounting to HK\$9.3 million. For the non-hotel portions comprising retail and commercial premises, rental income of HK\$3.6 million was generated under the leases for the period under review. As a result, the NPI generated from the property amounted to HK\$11.2 million for the Interim Period.

Performance of iclub Sheung Wan Hotel

During the Interim Period, the iclub Sheung Wan Hotel achieved an overall occupancy rate of 96.5% which was up by 3.7%, while the average daily room rate of approximately HK\$888 represented a drop of 2.8% over the past year.

Base Rent

According to the SW Market Rental Package for 2019, Regal REIT received Base Rent in the form of cash on a monthly basis and in the Interim Period thereby earned and received HK\$23.0 million.

Variable Rent

Regal REIT is entitled to receive Variable Rent through the sharing of profit from the iclub Sheung Wan Hotel's operations over the Base Rent earned. During the Interim Period, the NPI from hotel operations of the iclub Sheung Wan Hotel was HK\$22.5 million and no Variable Rent was earned as the NPI fell short of the Base Rent.

Performance of iclub Fortress Hill Hotel

During the Interim Period, the iclub Fortress Hill Hotel achieved an occupancy rate of 91.1% with an average daily room rate of approximately HK\$656 or a drop of 2.6% over the same period last year.

Base Rent

According to the FH Market Rental Package for 2019, Regal REIT received Base Rent in the form of cash on a monthly basis and in the Interim Period, thereby earned and received HK\$23.0 million.

Variable Rent

Regal REIT is entitled to receive Variable Rent through the sharing of profit from the iclub Fortress Hill Hotel's operations over the Base Rent earned. During the Interim Period, the NPI from hotel operations of the iclub Fortress Hill Hotel was HK\$19.8 million, representing a slight improvement from HK\$19.3 million over the past year. However, no Variable Rent was earned as the NPI fell short of the Base Rent.

Performance of iclub Ma Tau Wai Hotel

The iclub Ma Tau Wai Hotel commenced hotel operations in May 2017 and its performance is considered satisfactory for a new start-up hotel. During the Interim Period, Regal REIT earned fixed rental income as pre-determined in accordance with the terms of the MTW Lease Agreement that took effect from the completion date of its acquisition on 4th September, 2017.

For the period ended 30th June, 2019, Regal REIT earned fixed rental income of HK\$30.3 million, recognised on the straight-line basis for the leasing of the iclub Ma Tau Wai Hotel, while cash receipts of HK\$28.9 million were recorded based on the escalating fixed rental arrangement for the first five years.

Capital Additions Projects

A total of more than 120 guestrooms and suites within the five Initial Hotels were planned for renovation and upgrading work in 2019 under an ongoing asset enhancement programme. Several alteration and addition projects for improvements to guestrooms and facilities will be completed in 2019. In addition, certain replacement projects in respect of building services have also been planned and are on-going for the hotel portfolio.

Net Rental and Hotel Income

An analysis of the net rental and hotel income for the Interim Period compared to the corresponding period in 2018 is set out below.

	Six months ended 30th June, 2019		Six months ended 30th June, 2018	
	HK\$'million	%	HK\$'million	%
Initial Hotels				
Base Rent	388.0	79.0	375.5	76.3
Variable Rent	—	—	15.7	3.2
Other income	6.1	1.2	5.7	1.2
iclub Sheung Wan Hotel				
Rental income	23.0	4.7	22.1	4.5
iclub Fortress Hill Hotel				
Rental income	23.0	4.7	21.2	4.3
iclub Ma Tau Wai Hotel				
Rental income	30.3	6.2	30.3	6.2
iclub Wan Chai Hotel				
Gross hotel revenue	17.2	3.5	17.9	3.6
Rental income	3.6	0.7	3.6	0.7
Gross rental and hotel income	491.2	100.0	492.0	100.0
Property operating expenses	(1.7)	(0.3)	(6.1)	(1.2)
Hotel operating expenses	(9.3)	(1.9)	(9.2)	(1.9)
Net rental and hotel income	480.2	97.8	476.7	96.9

During the Interim Period, net rental and hotel income represented 97.8% of the gross rental and hotel income after the deduction of property and hotel operating expenses. Management services for the hotel properties are undertaken by the Hotel Manager under the relevant hotel management agreements with respect to the Initial Hotels, iclub Wan Chai Hotel, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel.

Net Assets Attributable to Unitholders

As at 30th June, 2019, net assets attributable to Unitholders amounted to HK\$16,695.3 million (31st December, 2018: HK\$17,314.5 million), representing net asset value (“NAV”) per Unit attributable to Unitholders of HK\$5.125, which was below the NAV of HK\$5.315 per Unit as at 31st December, 2018 mainly due to the decrease in the fair value of the property portfolio.

Valuation of the Property Portfolio

As at 30th June, 2019, Regal REIT’s overall property portfolio was valued at HK\$27,126.0 million (31st December, 2018: HK\$27,703.0 million). The property portfolio is comprised of (i) the five Initial Hotels, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel, the iclub Ma Tau Wai Hotel and the non-hotel portions of the iclub Wan Chai Hotel that are classified as investment properties; and (ii) the owner-operated hotel portion of the iclub Wan Chai Hotel which is classified as property, plant and equipment.

Valuations of the properties as at 30th June, 2019 and 31st December, 2018 are tabulated below.

Property	Location	30 Jun 2019 Valuation HK\$ million	31 Dec 2018 Valuation HK\$ million	% Change
<i>Initial Hotels:</i>				
Regal Airport Hotel	Lantau Island	3,100	3,250	-4.6%
Regal Hongkong Hotel	HK Island	4,606	4,724	-2.5%
Regal Kowloon Hotel	Kowloon	6,218	6,381	-2.6%
Regal Oriental Hotel	Kowloon	2,052	2,137	-4.0%
Regal Riverside Hotel	New Territories	5,405	5,431	-0.5%
		21,381	21,923	-2.5%
<i>iclub Hotels:</i>				
iclub Wan Chai Hotel	HK Island	915	930	-1.6%
iclub Sheung Wan Hotel	HK Island	1,650	1,660	-0.6%
iclub Fortress Hill Hotel	HK Island	1,700	1,700	—
iclub Ma Tau Wai Hotel	Kowloon	1,480	1,490	-0.7%
Overall property portfolio		27,126	27,703	-2.1%

The valuations of the property portfolio as at 30th June, 2019 were conducted by CBRE Limited (“CBRE”), the new principal valuer of Regal REIT appointed by the Trustee with a term of three years commencing from December 2018 pursuant to the provisions of the Code on Real Estate Investment Trusts (the “REIT Code”).

CBRE, as the independent professional property valuer, assessed the market values of the property portfolio subject to the lease agreements, hotel operations and the hotel management agreements and in accordance with “The HKIS Valuation Standards (2017 Edition)”, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the REIT Code. CBRE used the discounted cash flow (“DCF”) method based on key assumptions such as hotel room occupancies, hotel average room rates, terminal capitalisation rates and discount rates. The direct comparison approach was also used as a check on the valuation derived from the DCF method.



DISTRIBUTABLE INCOME AND DISTRIBUTION POLICY

Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's total distributable income for each financial year and the current policy of the REIT Manager is to comply with such requirement. The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager.

The unaudited distributable income for the Interim Period amounted to HK\$231.6 million, representing an entitlement of approximate HK\$0.071 per Unit.

Interim Distribution for 2019

The Board of Directors of the REIT Manager has resolved to declare an interim distribution of HK\$0.068 per Unit for the Interim Period. The interim distribution will be payable to Unitholders on the Register of Unitholders on 13th September, 2019.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Tuesday, 10th September, 2019 to Friday, 13th September, 2019, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the interim distribution for 2019, all Unit certificates with completed transfer forms must be lodged with Regal REIT's Unit registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Monday, 9th September, 2019. The relevant distribution warrants are expected to be despatched on or about 26th September, 2019.

FINANCIAL REVIEW AND FINANCING STRATEGY

The REIT Manager has continued to adopt a prudent approach to ensure that the leverage ratios do not exceed thresholds prescribed under the REIT Code and the financial covenants of the relevant loan facility agreements. As at 30th June, 2019, Regal REIT had bank loan facilities of up to HK\$11,303.0 million with different maturity terms.

Loan Financing

As at 30th June, 2019, Regal REIT's loan facilities aggregating HK\$11,303.0 million were comprised of: (a) term and revolving loan facilities of up to HK\$5,500.0 million secured by four of the five Initial Hotels; (b) a term loan facility of HK\$3,000.0 million secured by Regal Kowloon Hotel; (c) a term loan facility of HK\$440.0 million secured by the iclub Wan Chai Hotel; (d) term and revolving loan facilities of up to HK\$790.0 million secured by the iclub Sheung Wan Hotel; (e) term and revolving loan facilities of up to HK\$825.0 million secured by the iclub Fortress Hill Hotel; and (f) a term loan facility of HK\$748.0 million secured by the iclub Ma Tau Wai Hotel.

Financing for the Initial Hotels

On 12th September, 2016, Regal REIT, through wholly-owned subsidiaries, entered into a facility agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$1,000.0 million (the "2016 IH Facilities"), for a term of five years to September 2021. The 2016 IH Facilities are secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. The 2016 IH Facilities carry Hong Kong Interbank Offered Rate (HIBOR)-based interest margin. As at 30th June, 2019, the 2016 IH Facilities had an outstanding term loan facility of HK\$4,500.0 million and the full amount of the revolving loan facility was un-utilised.

On 8th March, 2018, Regal REIT, through a wholly-owned subsidiary, arranged a bilateral term loan facility of HK\$3,000.0 million (the "2018 RKH Facility"), secured by a mortgage over the Regal Kowloon Hotel. The 2018 RKH Facility bears a HIBOR-based interest margin and has a term of five years to March 2023. As at 30th June, 2019, the outstanding amount of the 2018 RKH Facility was HK\$3,000.0 million, representing the full amount of the term loan facility.

Financing for iclub Wan Chai Hotel

A term loan facility agreement for a principal amount of HK\$440.0 million (the "2014 WC Facility"), with a term of five years to December 2019, was entered into by a wholly-owned subsidiary of Regal REIT on 22nd December, 2014. The 2014 WC Facility was secured by the iclub Wan Chai Hotel and bore a HIBOR-based interest margin throughout its term. As at 30th June, 2019, the outstanding amount on the 2014 WC Facility was HK\$440.0 million, representing the full amount of the term loan facility.

After the end of the Interim Period, on 19th July, 2019, a new 5-year term loan facility of HK\$440.0 million was granted by the same bank to early refinance the 2014 WC Facility. Most of the key terms remain unchanged while the new loan facility bears a lower interest margin with maturity to July 2024.

Financing for iclub Sheung Wan Hotel

On 19th October, 2018, Regal REIT, through a wholly-owned subsidiary, arranged a bilateral loan facility of up to HK\$790.0 million, comprised of a term loan facility of HK\$632.0 million and a revolving loan facility of up to HK\$158.0 million, secured by the iclub Sheung Wan Hotel (the "2018 SW Facilities"). The 2018 SW Facilities bear a HIBOR-based interest margin and have a term of five years to October 2023. As at 30th June, 2019, the utilised amount of the 2018 SW Facilities was HK\$632.0 million, representing the full amount of the term loan facility.

Financing for iclub Fortress Hill Hotel

Regal REIT, through a wholly-owned subsidiary, arranged another bilateral loan facility of up to HK\$825.0 million, comprised of a term loan facility of HK\$660.0 million and a revolving loan facility of up to HK\$165.0 million, secured by the iclub Fortress Hill Hotel (the "2018 FH Facilities") on 29th November, 2018. The 2018 FH Facilities bear a HIBOR-based interest margin and have a term of five years to November 2023. As at 30th June, 2019, the outstanding amount of the 2018 FH Facilities was HK\$660.0 million, representing the full amount of the term loan facility.

Financing for iclub Ma Tau Wai Hotel

On 4th September, 2017, Regal REIT, through a wholly-owned subsidiary, arranged for a term loan facility of HK\$748.0 million, secured by the iclub Ma Tau Wai Hotel (the "2017 MTW Facility") with a term of three years to 2020 and bearing a HIBOR-based interest margin. As at 30th June, 2019, the outstanding amount of the 2017 MTW Facility was HK\$748.0 million, representing the full amount of the term loan facility.

Managing Fluctuations in Interest Rates

During the Interim Period, the HIBOR market experienced high volatility, with 1-month HIBOR fluctuating within a wide range of around 0.914% per annum at the low end to around 2.629% per annum⁴ at the high end, and was at 2.531% per annum as of Friday, 28th June, 2019. As at the end of the Interim Period, the interest cost components in respect of the loan facilities are all subject to floating HIBOR-based interest rates. The REIT Manager is continuously monitoring the interest rate trends and assessing any needs to contain or hedge the exposure of the finance costs and any impact that may arise from interest rate hikes.

Gearing and Cash

As at 30th June, 2019, the gearing ratio of Regal REIT was 36.5% (30th June, 2018: 37.2%), being the gross amount of the outstanding loans aggregating HK\$9,980.0 million, which takes into account: (a) the 2016 IH Facilities of HK\$4,500.0 million; (b) the 2018 RKH Facility of HK\$3,000.0 million; (c) the 2014 WC Facility of HK\$440.0 million; (d) the 2018 SW Facilities of HK\$632.0 million; (e) the 2018 FH Facilities of HK\$660.0 million; and (f) the 2017 MTW Facility of HK\$748.0 million, as compared to the total gross assets of Regal REIT of HK\$27,363.5 million. The gearing ratio is below the maximum 45% permitted under the REIT Code.

As at 30th June, 2019, Regal REIT had a total of HK\$108.2 million in unrestricted and HK\$78.8 million in restricted cash balances and bank deposits, and unutilised revolving loan facilities of HK\$1,323.0 million. Regal REIT maintains adequate cash reserves and revolving loan facilities and receives timely payments of rental income to satisfy its financial commitments as well as working capital requirements on an on-going basis.

Pledged Assets

As at 30th June, 2019, all nine Regal REIT's properties with an aggregate carrying value of HK\$27,126.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

⁴ Hong Kong Dollar HIBOR Fixings 1-Month: Bloomberg 2019.01.01 to 2019.06.30.

OTHER INFORMATION AND DISCLOSURES

PUBLIC FLOAT

As at 30th June, 2019, there were 3,257,431,189 Units in issue.

Based on information that is publicly available to the REIT Manager and as reported to the Directors of the REIT Manager, more than 25% of the issued Units were held by independent public Unitholders as at 30th June, 2019.

NEW UNITS ISSUED

There were no new Units allotted and issued during the Interim Period.

EMPLOYEES

Regal REIT is managed by the REIT Manager and the Trustee. By contracting out such services, Regal REIT does not employ any staff in its own right.

BUY-BACK, SALE OR REDEMPTION OF UNITS

There were no buys-back, sales or redemptions of Units during the Interim Period.

MATERIAL ACQUISITIONS OR DISPOSALS OF REAL ESTATE

Regal REIT did not enter into any real estate acquisition or disposal transactions during the Interim Period.

OTHER INVESTMENTS

Regal REIT did not engage or participate in any Property Development and Related Activities (as defined in the REIT Code) nor invest in any Relevant Investments (as defined in the REIT Code) during the Interim Period.

The REIT Manager seeks to ensure good corporate governance through high levels of transparency, equal treatment of Unitholders, compliance with applicable laws and regulations and by appointing independent and well-qualified board members.

The REIT Manager has adopted a compliance manual for use in relation to the management and operation of Regal REIT (the "Compliance Manual"). The Compliance Manual sets out the key processes, systems and policies and procedures to guide operations and, thereby, set a high standard of corporate governance to ensure relevant regulations and legislation are adhered to.

During the Interim Period, Regal REIT and the REIT Manager have complied with the provisions of the Compliance Manual, the Trust Deed and the REIT Code and the relevant provisions of the SFO and the Listing Rules which are applicable to Regal REIT.

AUTHORISATION STRUCTURE

Regal REIT is a collective investment scheme authorised by the SFC under section 104 of the SFO and regulated by the provisions of the REIT Code and constituted by the Trust Deed.

The REIT Manager is licensed by the SFC under the SFO to conduct regulated activities related to asset management. During the period under review, Mr. Johnny Chen Sing Hung, Mr. Simon Lam Man Lim and Mr. Wesley Chan Hiu Yeung have acted as the Responsible Officers of the REIT Manager.

The Trustee is registered as a trust company and is qualified to act as a trustee for collective investment schemes authorised under the SFO pursuant to the REIT Code.

BOARD OF DIRECTORS OF THE REIT MANAGER

The board of directors of the REIT Manager (the "Board") is responsible for overseeing the overall governance of the REIT Manager and the day-to-day management of the REIT Manager's affairs and the conduct of its business. The Board has established a framework for the management of Regal REIT, including systems of internal control and business risk management processes. The Board currently comprises two Executive Directors, five Non-executive Directors and four Independent Non-executive Directors.

DEALINGS IN SECURITIES OF REGAL REIT BY DIRECTORS OR THE REIT MANAGER

The REIT Manager has adopted the "Code Governing Dealings in Units by Directors or the REIT Manager" (the "Units Dealings Code") governing dealings in the securities of Regal REIT by the Directors and the REIT Manager as set out in the Compliance Manual, on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). The Units Dealings Code may be extended to senior executives, officers and other employees of the REIT Manager as the Board may determine. Following specific enquiries by the REIT Manager, the Directors of the REIT Manager and the REIT Manager have confirmed that they have complied with the required standards under the Model Code and the Units Dealings Code during the Interim Period.

CHANGE OF INFORMATION OF DIRECTORS

Subsequent to publication of the 2018 annual report of Regal REIT, the REIT Manager was informed of the following changes of Directors' information:

Name of Directors	Details of changes
Mr. Bowen Joseph Leung Po Wing, GBS, JP	– Resigned as an independent non-executive director of Green Leader Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), with effect from 20th August, 2019.
Hon. Abraham Shek Lai Him, GBS, JP	– Appointed as an independent non-executive director and a member of the audit committee of Far East Consortium International Limited, a company listed on the Stock Exchange, with effect from 3rd June, 2019. – Retired as an independent non-executive director of MTR Corporation Limited, a company listed on the Stock Exchange, with effect from the conclusion of its annual general meeting held on 22nd May, 2019. – Appointed as the honorary chairman and retired as the chairman of the board of directors of Chuang's China Investments Limited, a company listed on the Stock Exchange, with effect from 29th April, 2019.

REVIEW OF INTERIM REPORT

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed the interim report of Regal REIT for the six-month period from 1st January, 2019 to 30th June, 2019, in conjunction with Regal REIT's external auditor. The review report of the external auditor is set out in the section "Report on Review of Interim Financial Information" contained in this Interim Report.

CONNECTED PARTY TRANSACTIONS

During the period under review, Regal REIT and the other companies or entities held or controlled by Regal REIT (collectively, the “Regal REIT Group”) entered into a number of continuing transactions with its connected persons (defined in paragraph 8.1 of the REIT Code), as listed below, which constitute connected party transactions of Regal REIT within the meaning of the REIT Code:

- (i) the REIT Manager and the other companies or entities held or controlled by Regal Hotels International Holdings Limited (“RHIHL”) (collectively, the “RHIHL Connected Persons Group”);
- (ii) the Trustee and companies within the same group or otherwise “associated” with the Trustee (collectively, the “Trustee Connected Persons Group”); and
- (iii) CBRE Limited (“CBRE”), the principal valuer of Regal REIT, and companies within the same group or otherwise “associated” with CBRE (collectively, the “Valuer Connected Persons Group”).

RHIHL CONNECTED PERSONS GROUP

(a) Initial Hotels Lease Agreements

Regal REIT (via Bauhinia Hotels Limited, Cityability Limited, Gala Hotels Limited, Regal Riverside Hotel Limited and Ricobem Limited, the direct owners of the Initial Hotels, respectively, (collectively, the “Initial Hotel – Property Companies” and each referred to as the “Initial Hotel – Property Company”)) entered into separate Initial Hotels Lease Agreements with Favour Link International Limited (the “RHIHL Lessee”) in relation to the leasing of the Initial Hotels on 16th March, 2007 (as may be amended from time to time) with lease terms to expiry on 31st December, 2020. The RHIHL Lessee is a member of the RHIHL Connected Persons Group.

During the Interim Period, the market rental income and other income under the Initial Hotels Lease Agreements amounted to approximately HK\$394.1 million.

(b) Initial Hotels Management Agreements

Under the terms of each Initial Hotels Lease Agreement, the RHIHL Lessee has delegated the operation and management of the relevant Initial Hotel to Regal Hotels International Limited (the “Hotel Manager”) by entering into the Initial Hotels Management Agreement with the Hotel Manager for a term of twenty years from 16th March, 2007. The RHIHL Lessee and the Hotel Manager are both members of the RHIHL Connected Persons Group.

Each Initial Hotel – Property Company is also a party to the Initial Hotels Management Agreement on terms including that, upon the expiry or termination of any Initial Hotels Lease Agreement, the Hotel Manager will continue to manage the relevant Initial Hotel in accordance with the Initial Hotels Management Agreement.

(c) Initial Hotels Lease Guarantees

RHIHL, a member of the RHIHL Connected Persons Group, has guaranteed to pay all amounts from time to time owing or payable by the RHIHL Lessee to the Initial Hotel – Property Companies under the Initial Hotels Lease Agreements by entering into the lease guarantees (as may be amended from time to time) (the “Initial Hotels Lease Guarantees”). The Initial Hotels Lease Guarantees also contain indemnities in respect of all guaranteed liabilities.

(d) Initial Hotels Deed of Trade Mark Licence

Regal International Limited, a member of the RHIHL Connected Persons Group, entered into a deed of trade mark licence with the REIT Manager and Regal REIT Group on 2nd March, 2007. Regal International Limited granted to the REIT Manager and each Initial Hotel – Property Company, inter alia, a non-exclusive and non-transferable licence to use its registered trade marks or service marks, in any jurisdiction where such marks are registered and free of any royalty, for the purpose of describing the ownership of each Initial Hotel and/or uses in connection with the business of each Initial Hotel.

(e) Wan Chai Hotel Management Agreement

On 23rd December, 2010, Regal REIT (via Sonnix Limited (the “iclub Wan Chai Hotel – Property Company”)) entered into the Wan Chai Hotel Management Agreement with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of iclub Wan Chai Hotel for a 10-year term commencing on 1st January, 2011 and expiring on 31st December, 2020.

During the Interim Period, total management fees under the Wan Chai Hotel Management Agreement amounted to approximately HK\$0.8 million.

(f) SW Lease Agreement

Regal REIT (via Tristan Limited (the “iclub Sheung Wan Hotel – Property Company”)) entered into the SW Lease Agreement in relation to the leasing of the iclub Sheung Wan Hotel with the RHIHL Lessee, a member of the RHIHL Connected Persons Group, on 10th February, 2014 (as may be amended from time to time). The term of the SW Lease Agreement was designated to expire on 31st December, 2019, which is extendable at the option of Regal REIT for a further five years. On 17th May, 2019, pursuant to the terms of the SW Lease Agreement, the iclub Sheung Wan Hotel – Property Company (as the Lessor) exercised its discretion to serve a written notice to the RHIHL Lessee to extend the lease term for a further five year period, commencing from 1st January, 2020 and expiring on 31st December, 2024 (both days inclusive), which exercise notice has been duly acknowledged and accepted by the RHIHL Lessee. Save for the extension of the lease term as mentioned above, all the other existing terms and conditions of the SW Lease Agreement will remain unchanged.

During the Interim Period, the market rental income under the SW Lease Agreement amounted to approximately HK\$23.0 million.

(g) SW Lease Guarantee

Pursuant to a lease guarantee entered into on 10th February, 2014, RHIHL, a member of the RHIHL Connected Persons Group, has guaranteed to pay all amounts from time to time owing or payable by the RHIHL Lessee to the iclub Sheung Wan Hotel – Property Company under the SW Lease Agreement.

(h) SW Hotel Management Agreement

Regal REIT (via the iclub Sheung Wan Hotel – Property Company) entered into the SW Hotel Management Agreement with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of iclub Sheung Wan Hotel for a 10-year term commencing on 10th February, 2014.

(i) FH Lease Agreement

Regal REIT (via Wise Decade Investments Limited (the “iclub Fortress Hill Hotel – Property Company”)) entered into the FH Lease Agreement in relation to the leasing of the iclub Fortress Hill Hotel with the RHIHL Lessee, a member of the RHIHL Connected Persons Group, on 28th July, 2014. The term of the FH Lease Agreement was designated to expire on 31st December, 2019, which is extendable at the option of Regal REIT for a further five years. On 17th May, 2019, pursuant to the terms of the FH Lease Agreement, the iclub Fortress Hill Hotel – Property Company (as the Lessor) exercised its discretion to serve a written notice to the RHIHL Lessee to extend the lease term for a further five year period, commencing from 1st January, 2020 and expiring on 31st December, 2024 (both days inclusive), which exercise notice has been duly acknowledged and accepted by the RHIHL Lessee. Save for the extension of the lease term as mentioned above, all the other existing terms and conditions of the FH Lease Agreement will remain unchanged.

During the Interim Period, the market rental income under the FH Lease Agreement amounted to approximately HK\$23.0 million.

(j) FH Lease Guarantee

Pursuant to a lease guarantee entered into on 28th July, 2014, RHIHL, a member of the RHIHL Connected Persons Group, has guaranteed to pay all amounts from time to time owing or payable by the RHIHL Lessee to the iclub Fortress Hill Hotel – Property Company under the FH Lease Agreement.

(k) FH Hotel Management Agreement

Regal REIT (via the iclub Fortress Hill Hotel – Property Company) entered into the FH Hotel Management Agreement with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of iclub Fortress Hill Hotel for a 10-year term commencing on 28th July, 2014.

(l) Tenancy Agreement

On 19th January, 2017, Regal REIT (via the iclub Wan Chai Hotel – Property Company), as landlord, entered into a tenancy agreement with Cheerview Limited, a member of the RHIHL Connected Persons Group, as tenant (the “RHIHL Tenant”), for the leasing of Shop Nos. A and B, G/F., No. 211 Johnston Road, Wanchai, Hong Kong, which is part of the iclub Wan Chai Hotel, for a 3-year term commencing on 20th January, 2017 (the “Tenancy Agreement”) at a rental of HK\$140,000 per calendar month, exclusive of air-conditioning charges, management fees, government rates and other outgoing expenses, payable monthly in advance. Pursuant to the terms of the Tenancy Agreement, the RHIHL Tenant shall be entitled to an option to renew the Tenancy Agreement for a further three years from the date of expiry of the Tenancy Agreement at a market rent to be determined by the principal valuer of Regal REIT.

During the Interim Period, total contractual lease income under the Tenancy Agreement amounted to approximately HK\$0.9 million.

(m) MTW Lease Agreement

Regal REIT (via Land Crown International Limited (the “iclub Ma Tau Wai Hotel – Property Company”)) entered into the MTW Lease Agreement in relation to the leasing of the iclub Ma Tau Wai Hotel with the RHIHL Lessee, a member of the RHIHL Connected Persons Group, on 4th September, 2017. The term of the MTW Lease Agreement expires on 3rd September, 2022, which is extendable at the option of Regal REIT for a further term to 31st December, 2027.

During the Interim Period, the contractual cash rental receipts under the MTW Lease Agreement amounted to approximately HK\$28.9 million.

(n) MTW Lease Guarantee

Pursuant to a lease guarantee entered into on 4th September, 2017, RHIHL, a member of the RHIHL Connected Person Group, has guaranteed to pay all amounts from time to time owing or payable by the RHIHL Lessee to the iclub Ma Tau Wai Hotel – Property Company under the MTW Lease Agreement.

(o) MTW Hotel Management Agreement

Regal REIT (via the iclub Ma Tau Wai Hotel – Property Company) entered into the MTW Hotel Management Agreement with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of iclub Ma Tau Wai Hotel for a 10-year term commencing on 4th September, 2017.

REIT Manager Fees

Regal Portfolio Management Limited, a member of the RHIHL Connected Persons Group, was appointed as the REIT Manager of Regal REIT. REIT Manager fees aggregating approximately HK\$56.1 million for such services rendered during the Interim Period were settled and/or are to be settled pursuant to the provisions of the Trust Deed.

TRUSTEE CONNECTED PERSONS GROUP

Corporate Finance Transactions

On 11th January, 2013, R-REIT International Finance Limited (the “Issuer”), a special purpose vehicle wholly-owned by Regal REIT, established a US\$1.0 billion medium term note (the “Notes”) programme (the “MTN Programme”). The Notes may be issued by the Issuer from time to time, and will be guaranteed by the Trustee. A fiscal and paying agency agreement dated 11th January, 2013 relating to the MTN Programme entered into by the Issuer, the Trustee (as guarantor), Deutsche Bank AG, Hong Kong Branch (as fiscal agent, transfer agent, paying agent and, in respect of each series of CMU Notes, as registrar), Deutsche Bank Luxembourg S.A. (as register in respect of each series of Notes other than the CMU Notes) and Deutsche Bank AG, Hong Kong Branch (as the CMU lodging and paying agent). Deutsche Bank Luxembourg S.A. and Deutsche Bank AG, Hong Kong Branch, both members of the Trustee Connected Persons Group, provide registrar, fiscal, paying and transfer agency services to Regal REIT in connection with the MTN Programme and the Notes issued thereunder for an annual fee of US\$6,000. As at 30th June, 2019, no notes under the MTN Programme were outstanding as these were repaid in full on their respective due dates on 22nd March, 2018 and 22nd May, 2018.

Both the REIT Manager and the Trustee have confirmed that there were no corporate finance transactions or other connected party transactions (save and except for those disclosed hereinabove) with the Trustee Connected Persons Group during the Interim Period.

Trustee Fees

DB Trustees (Hong Kong) Limited, a member of the Trustee Connected Persons Group, was appointed as the Trustee of Regal REIT. Trustee fees aggregating approximately HK\$2.1 million were recorded during the Interim Period for services rendered in this capacity.

VALUER CONNECTED PERSONS GROUP

CBRE, a member of the Valuer Connected Persons Group, was appointed as the principal valuer of Regal REIT in December 2018. During the Interim Period, an amount of approximately HK\$0.2 million in aggregate was charged for valuation services.

CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors of the REIT Manager have reviewed the terms of all relevant connected party transactions above and were satisfied that those transactions were entered into:

- (a) in the ordinary and usual course of business of Regal REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are insufficient comparable transactions to assess whether they are on normal commercial terms, on terms no less favourable to Regal REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreements and deeds and the REIT Manager's internal procedures governing them (if any) on terms that are fair and reasonable and in the interests of Unitholders as a whole.

DISCLOSURE OF INTERESTS

The REIT Code requires Connected Persons (as defined in paragraph 8.1 of the REIT Code) of Regal REIT to disclose their interests in the Units. As well, the provisions of Part XV of the SFO are deemed by the Trust Deed to apply to the REIT Manager, the directors or the chief executives of the REIT Manager, and to persons interested in the Units.

HOLDINGS OF SIGNIFICANT UNITHOLDERS

As at 30th June, 2019, the interests of the Significant Unitholders (as defined in paragraph 8.1 of the REIT Code) (not being a director or chief executive of the REIT Manager) in Units, as recorded in the register (the "Register") required to be kept under the Trust Deed, were as follows:

Name of Significant Unitholders	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2019 ^(x)
Century City International Holdings Limited ("CCIHL")	2,443,033,102 (Note i)	74.99%
Century City BVI Holdings Limited ("CCBVI")	2,443,033,102 (Notes i & ii)	74.99%
Paliburg Holdings Limited ("PHL")	2,440,346,102 (Notes iii & iv)	74.92%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,440,346,102 (Notes iii & v)	74.92%
Regal Hotels International Holdings Limited ("RHIHL")	2,439,613,739 (Notes vi & vii)	74.89%
Regal International (BVI) Holdings Limited ("RBVI")	2,439,613,739 (Notes vi & viii)	74.89%
Complete Success Investments Limited	1,817,012,072 (Note ix)	55.78%
Great Prestige Investments Limited	373,134,326 (Note ix)	11.45%

Notes:

- (i) The interests in 2,443,033,102 Units held by each of CCIHL and CCBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of CCBVI, PDBVI, RBVI and Cosmopolitan International Holdings Limited ("Cosmopolitan"), respectively.
- (ii) CCBVI is a wholly-owned subsidiary of CCIHL and its interests in Units are deemed to be the same interests held by CCIHL.
- (iii) The interests in 2,440,346,102 Units held by each of PHL and PDBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of PDBVI, RBVI and Cosmopolitan, respectively.

- (iv) PHL is a listed subsidiary of CCBVI, which held an approximately 62.28% shareholding interest in PHL as at 30th June, 2019, and its interests in Units are deemed to be the same interests held by CCBVI.
- (v) PDBVI is a wholly-owned subsidiary of PHL and its interests in Units are deemed to be the same interests held by PHL.
- (vi) The interests in 2,439,613,739 Units held by each of RHIHL and RBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI and Cosmopolitan, respectively.
- (vii) RHIHL is a listed subsidiary of PDBVI, which held an approximately 69.25% shareholding interest in RHIHL as at 30th June, 2019, and its interests in Units are deemed to be the same interests held by PDBVI.
- (viii) RBVI is a wholly-owned subsidiary of RHIHL and its interests in Units are deemed to be the same interests held by RHIHL.
- (ix) These companies are wholly-owned subsidiaries of RBVI and their respective direct interests in Units are deemed to be the same interests held by RBVI.
- (x) The approximate percentages were calculated based on 3,257,431,189 Units in issue as at 30th June, 2019.

Save as disclosed herein, there were no other persons who, as at 30th June, 2019, had interests in Units which are required to be recorded in the Register.

HOLDINGS OF THE REIT MANAGER, DIRECTORS AND CHIEF EXECUTIVES OF THE REIT MANAGER

As at 30th June, 2019, the interests of the REIT Manager, directors and the chief executives of the REIT Manager in Units, as recorded in the Register, were as follows:

Name of the REIT Manager and Director of the REIT Manager	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2019 ⁽ⁱⁱⁱ⁾
LO Yuk Sui	2,443,033,102 (Note i)	74.99%
Regal Portfolio Management Limited	120,381,598 (Note ii)	3.70%

Notes:

- (i) The interests in 2,443,033,102 Units were the same parcel of Units held through CCIHL in which Mr. Lo Yuk Sui held approximately 58.68% shareholding interest as at 30th June, 2019.
- (ii) Regal Portfolio Management Limited is the Manager of Regal REIT (as defined under the REIT Code).
- (iii) The approximate percentages were calculated based on 3,257,431,189 Units in issue as at 30th June, 2019.

Save as disclosed herein, as at 30th June, 2019, none of the REIT Manager, the directors and the chief executives of the REIT Manager had any interests in Units, which are required to be recorded in the Register. Save for the interests of the Significant Unitholders, the REIT Manager and the Director of the REIT Manager (also being the Connected Persons of Regal REIT) in Units as disclosed herein, the REIT Manager is not aware of any other Connected Persons of Regal REIT holding any Units.

PERFORMANCE TABLE

As at 30th June, 2019

	Notes	Six months ended 30th June, 2019	Six months ended 30th June, 2018	Six months ended 30th June, 2017	Six months ended 30th June, 2016	Six months ended 30th June, 2015
Net assets attributable to Unitholders (HK\$'million)		16,695.3	16,229.5	14,995.6	13,442.1	13,763.3
Net asset value per Unit attributable to Unitholders (HK\$)		5.125	4.982	4.604	4.127	4.225
The highest traded price during the period (HK\$)	1	2.52	2.47	2.33	2.02	2.37
The lowest traded price during the period (HK\$)		2.20	2.30	2.05	1.72	2.05
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		57.07%	53.83%	55.47%	58.32%	51.48%
Distribution yield per Unit	2	2.81%	3.22%	3.22%	3.76%	3.29%

Notes:

1. The highest traded price during all the relevant periods was lower than the net asset value per Unit attributable to Unitholders reported at the end of those periods. Accordingly, no premium for the traded price to net asset value per Unit attributable to Unitholders is presented.
2. Distribution yield per Unit for the six months ended 30th June, 2019 is calculated by dividing the interim distribution per Unit of HK\$0.068 over the closing price of HK\$2.42 on the last trading day for the period. The calculation of the interim distribution per Unit is set out in the section "Distribution Statement" on page 36.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30th June, 2019

	Notes	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Revenue			
Gross rental revenue	4	474,008	474,111
Gross hotel revenue	4	17,218	17,905
		<u>491,226</u>	<u>492,016</u>
Property and hotel operating expenses	4(f)	<u>(10,963)</u>	<u>(15,364)</u>
Net rental and hotel income	4	480,263	476,652
Interest income		1,075	294
Depreciation	10	(4,753)	(4,574)
Fair value changes on investment properties	11	(585,092)	716,039
Fair value changes on investment properties - right-of-use assets	11	(4,532)	-
REIT Manager fees	5	(56,140)	(53,114)
Trust, professional and other expenses	6	(4,385)	(10,510)
Finance costs - excluding distribution to Unitholders	7	<u>(144,613)</u>	<u>(131,373)</u>
PROFIT/(LOSS) BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS		(318,177)	993,414
Income tax expense	8	<u>(44,768)</u>	<u>(50,491)</u>
PROFIT/(LOSS) FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		(362,945)	942,923
Finance costs - distribution to Unitholders		<u>(247,565)</u>	<u>(231,277)</u>
PROFIT/(LOSS) FOR THE PERIOD, AFTER DISTRIBUTION TO UNITHOLDERS		<u>(610,510)</u>	<u>711,646</u>
EARNINGS/(LOSS) PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	9	<u>HK\$(0.111)</u>	<u>HK\$0.289</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2019

	Notes	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		(362,945)	942,923
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Gain/(loss) on revaluation of property	10	(10,411)	39,775
Income tax effect	19	1,718	(6,564)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		(8,693)	33,211
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		(8,693)	33,211
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		(371,638)	976,134

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2019

	Notes	30th June, 2019 (unaudited) HK\$'000	31st December, 2018 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	694,000	709,000
Investment properties	11	26,432,000	26,994,000
Investment properties - right-of-use assets	11	26,693	–
Total non-current assets		<u>27,152,693</u>	<u>27,703,000</u>
Current assets			
Accounts receivable	12	10,139	60,982
Prepayments, deposits and other receivables		6,277	5,955
Due from related companies		1,874	6,967
Tax recoverable		5,535	6,106
Restricted cash	13	78,822	68,505
Cash and cash equivalents	14	108,179	130,326
Total current assets		<u>210,826</u>	<u>278,841</u>
Total assets		<u>27,363,519</u>	<u>27,981,841</u>
Current liabilities			
Accounts payable	15	41,183	86,711
Deposits received		3,031	224
Due to related companies		674	3,470
Other payables and accruals		38,027	50,088
Contract liabilities	16	1,095	1,246
Interest-bearing bank borrowings	18	439,750	439,492
Lease liabilities	17	9,870	–
Tax payable		18,915	9,304
Total current liabilities		<u>552,545</u>	<u>590,535</u>
Net current liabilities		<u>(341,719)</u>	<u>(311,694)</u>
Total assets less current liabilities		<u>26,810,974</u>	<u>27,391,306</u>

		30th June, 2019	31st December, 2018
	Notes	(unaudited) HK\$'000	(audited) HK\$'000
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	18	9,483,733	9,473,792
Lease liabilities	17	16,823	–
Deposits received		–	2,695
Deferred tax liabilities	19	615,105	600,303
Total non-current liabilities		10,115,661	10,076,790
Total liabilities, excluding net assets attributable to Unitholders			
		10,668,206	10,667,325
Net assets attributable to Unitholders			
		16,695,313	17,314,516
Number of Units in issue			
	20	3,257,431,189	3,257,431,189
Net asset value per Unit attributable to Unitholders			
	21	HK\$5.125	HK\$5.315

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the six months ended 30th June, 2019

	Units (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Property revaluation reserve (unaudited) HK\$'000	Retained profits (unaudited) HK\$'000	Total (unaudited) HK\$'000
Net assets as at 1st January, 2019	8,432,356	15,876	257,346	8,608,938	17,314,516
Loss for the period	—	—	—	(362,945)	(362,945)
Other comprehensive loss for the period:					
Loss on revaluation of property, net of tax	—	—	(8,693)	—	(8,693)
Total comprehensive loss for the period, before distribution to Unitholders	—	—	(8,693)	(362,945)	(371,638)
Transfer of depreciation on hotel property	—	—	(1,309)	1,309	—
Finance costs - distribution to Unitholders	—	—	—	(247,565)	(247,565)
Net assets as at 30th June, 2019	<u>8,432,356</u>	<u>15,876</u>	<u>247,344</u>	<u>7,999,737</u>	<u>16,695,313</u>

For the six months ended 30th June, 2018

	Units (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Property revaluation reserve (unaudited) HK\$'000	Retained profits (unaudited) HK\$'000	Total (unaudited) HK\$'000
Net assets as at 1st January, 2018	8,432,356	15,876	209,096	6,827,330	15,484,658
Profit for the period	—	—	—	942,923	942,923
Other comprehensive income for the period:					
Gain on revaluation of property, net of tax	—	—	33,211	—	33,211
Total comprehensive income for the period, before distribution to Unitholders	—	—	33,211	942,923	976,134
Transfer of depreciation on hotel property	—	—	(1,068)	1,068	—
Finance costs - distribution to Unitholders	—	—	—	(231,277)	(231,277)
Net assets as at 30th June, 2018	<u>8,432,356</u>	<u>15,876</u>	<u>241,239</u>	<u>7,540,044</u>	<u>16,229,515</u>

DISTRIBUTION STATEMENT

For the six months ended 30th June, 2019

	Notes	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Profit/(loss) for the period, before distribution to Unitholders		(362,945)	942,923
Adjustments:			
Difference in accounting rental income and contractual cash rental income		(1,432)	(3,132)
Amounts set aside for the furniture, fixtures and equipment reserve	(d)	(20,629)	(21,286)
Amortisation of debt establishment costs		10,199	10,213
Fair value changes on investment properties		585,092	(716,039)
Depreciation		4,753	4,574
Foreign exchange differences, net		—	5,455
Deferred tax charge		16,520	18,991
Distributable income for the period	(a)	231,558	241,699
Distribution per Unit	(a),(b)&(c)	HK\$0.068	HK\$0.074

Notes:

- (a) Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's total distributable income as defined in the Trust Deed ("Total Distributable Income") for each financial year and the current policy of the REIT Manager is to comply with such requirement.

The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. The REIT Manager has resolved to make an interim distribution of HK\$0.068 per Unit for the six months ended 30th June, 2019 (six months ended 30th June, 2018: HK\$0.074 per Unit).

- (b) Pursuant to the Trust Deed, the REIT Manager determines the date (the "Record Date") in respect of each distribution period for the purpose of establishing Unitholder entitlements to distributions. The Record Date has been set as 13th September, 2019 in respect of the interim distribution for the six months ended 30th June, 2019. The interim distribution will be paid out to Unitholders on or about 26th September, 2019.

- (c) The interim distribution of HK\$0.068 per Unit for the six months ended 30th June, 2019, involving a total distribution of HK\$221.5 million, was resolved and declared by the REIT Manager on 26th August, 2019. Accordingly, the distribution is not reflected as a distribution payable in the condensed consolidated financial statements and will be reflected in the consolidated financial statements for the year ending 31st December, 2019.

- (d) Amounts set aside by Regal REIT for the furniture, fixtures and equipment reserve (the "FF&E Reserve") with respect to Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, Regal Riverside Hotel (collectively, the "Initial Hotels" and each referred to as the "Initial Hotel"), iclub Wan Chai Hotel, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel aggregated HK\$20.6 million (six months ended 30th June, 2018: HK\$21.3 million).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2019

	Note	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Net cash flows from operating activities		263,521	228,217
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(164)	(799)
Additions to investment properties		(23,092)	(8,961)
Increase in restricted cash		(4,814)	(5,039)
Increase in time deposit with an original maturity of more than three months		(100)	(30,000)
Cash flows used in investing activities		(28,170)	(44,799)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings, net of debt establishment costs		—	2,973,000
Repayment of bank borrowings		—	(877,000)
Repayment of other borrowings		—	(1,952,350)
Principal portion of lease payments		(4,532)	—
Distribution paid		(247,565)	(231,277)
Increase in restricted cash		(5,501)	—
Net cash flows used in financing activities		(257,598)	(87,627)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(22,247)	95,791
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		120,326	34,731
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		98,079	130,522
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	14	108,179	160,522
Non-pledged time deposit with an original maturity of more than three months	14	(10,100)	(30,000)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows		98,079	130,522

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2019

1. GENERAL

Regal Real Estate Investment Trust ("Regal REIT") is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units (the "Units") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30th March, 2007. Regal REIT is governed by a trust deed (the "Trust Deed") dated 11th December, 2006 (date of establishment), made between Regal Portfolio Management Limited (the "REIT Manager") and DB Trustees (Hong Kong) Limited (the "Trustee") (as amended by the first supplemental trust deed dated 2nd March, 2007, the second supplemental trust deed dated 15th May, 2008, the third supplemental trust deed dated 8th May, 2009, the fourth supplemental trust deed dated 23rd July, 2010, the fifth supplemental trust deed dated 3rd May, 2011, the sixth supplemental trust deed dated 21st July, 2011 and the seventh supplemental trust deed dated 14th April, 2015) and the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission (the "SFC").

The principal activity of Regal REIT and its subsidiaries (collectively, the "Group") is to own and invest in income-producing hotels, serviced apartments or commercial properties (including office premises) with the objectives of producing stable and growing distributions to the unitholders of Regal REIT (the "Unitholders") and to achieve long-term growth in the net asset value per Unit.

The addresses of the registered office of the REIT Manager and the Trustee are Unit No. 2001, 20th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong and Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, respectively.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. In addition, the condensed consolidated financial statements include applicable disclosures required by the REIT Code issued by the SFC.

2.2 Basis of preparation

The condensed consolidated financial statements have been prepared on the historical cost basis, except for property, plant and equipment, investment properties and investment properties - right-of-use assets which have been measured at fair value. These condensed consolidated financial statements are presented in Hong Kong dollars, the functional currency of Regal REIT, and all values are rounded to the nearest thousand except when otherwise indicated.

As at 30th June, 2019, the Group's current liabilities exceeded its current assets by HK\$341,719,000. The net current liabilities position was mainly due to the outstanding loan under the 2014 WC Facility in the principal amount of HK\$440,000,000 which has been classified under current liabilities as at the end of the reporting period. On 19th July, 2019, a new 5-year term loan facility of HK\$440,000,000 was granted by the same bank to early refinance the 2014 WC Facility. Taking into account the current available banking facilities, the refinancing arrangement and the stable operating cash inflow from rental income, the REIT Manager considers the Group has adequate resources to meet its liabilities, commitments and funding requirements as and when they fall due within one year from the end of the reporting period. Accordingly, the REIT Manager continues to adopt the going concern basis in preparing the condensed consolidated financial statements.

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2018, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the Group's annual periods beginning on or after 1st January, 2019.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements</i> <i>2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of HKFRS 16 are described below:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1st January, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1st January, 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

Since the Group recognised the right-of-use assets at the amount of the lease liabilities, there was no impact to the retained earnings.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1st January, 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for leases that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

The Group recognised rental expenses from short-term leases of HK\$165,000 for the six months ended 30th June, 2019.

Impacts on transition

Lease liabilities at 1st January, 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1st January, 2019 by making reference to the borrowing rate of the 2016 IH Facilities as at 1st January, 2019.

The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1st January, 2019.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1st January, 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1st January, 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of HKFRS 16 as at 1st January, 2019 are as follows:

	(unaudited) HK\$'000
Assets	
Increase in investment properties - right-of-use assets	23,199
Liabilities	
Increase in lease liabilities	23,199

The lease liabilities as at 1st January, 2019 reconciled to the operating lease commitments as at 31st December, 2018 are as follows:

	(Unaudited) HK\$'000
Operating lease commitments as at 31st December, 2018 (under HKAS 17)	8,369
Incremental borrowing rate as at 1st January, 2019	3.39%
Discounted operating lease commitments as at 1st January, 2019	8,190
Add: Payments for optional extension period not recognised as at 31st December, 2018	15,077
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31st December, 2019	(68)
Lease liabilities as at 1st January, 2019 (under HKFRS 16)	23,199

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31st December, 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1st January, 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the respective leases. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the respective leases at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments).

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

Upon the adoption of HKFRS 16, the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period are as follows:

	Investment properties - right-of-use assets (unaudited) HK\$'000	Lease liabilities (unaudited) HK\$'000
As at 1st January, 2019	23,199	23,199
Additions	8,026	8,026
Interest expense	—	361
Decrease in fair value	(4,532)	—
Payments	—	(4,893)
As at 30th June, 2019	<u>26,693</u>	<u>26,693</u>

Set out below are the amounts by which each financial statement line item was affected for the six months ended 30th June, 2019 as a result of the adoption of HKFRS 16.

Condensed consolidated statement of profit or loss for the six months ended 30th June, 2019:

	Note	Amounts prepared under		Increase/ (decrease) HK\$'000
		HKFRS 16 HK\$'000	Previous HKFRS HK\$'000	
Property and hotel operating expenses	(i)	(10,963)	(15,856)	(4,893)
Fair value changes on investment properties - right-of-use assets	(i)	(4,532)	—	4,532
Finance costs – excluding distribution to Unitholders	(i)	(144,613)	(144,252)	361

The nature of the adjustments and the reasons for the changes in the condensed consolidated statement of profit or loss for the six months ended 30th June, 2019 are described below:

- (i) Before the adoption of HKFRS 16, the Group recognised the lease payments as property and hotel operating expenses. Upon the adoption of HKFRS 16, the lease payments were not recognised in profit and loss but reduced the carrying amount of lease liabilities. In addition, the Group recognised the fair value changes on right-of-use assets by remeasuring the right-of-use assets as at 30th June, 2019 and recognised the interest arising on the lease liabilities during the period.

Accordingly, the adoption of HKFRS 16 resulted in a decrease in property and hotel operating expenses by HK\$4,893,000 for the six months ended 30th June, 2019. Fair value changes on right-of-use assets and finance costs – excluding distribution to Unitholders were increased by HK\$4,532,000 and HK\$361,000, respectively, for the six months ended 30th June, 2019.

The Group recognised rental income from subleasing right-of-use assets of HK\$4,893,000 for the six months ended 30th June, 2019.

3. OPERATING SEGMENT INFORMATION

Operating segments of the Group are identified on the basis of internal reports covering the components of the Group which are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to segments and assess their performance. Information reported to the Group's chief operating decision-maker, for the above-mentioned purposes, is mainly focused on the segment results related to the nature of properties, namely, the hotel properties and the mixed use property. For management purposes, the two reportable operating segments are (i) the hotel properties segment which invested in the Initial Hotels, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel; and (ii) the mixed use property segment which invested in the iclub Wan Chai Hotel and is made up of the hotel portion and non-hotel portions.

The operating segments of the Group for the six months ended 30th June, 2019 are as follows:

	Note	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Segment revenue				
Gross rental revenue		470,405	3,603	474,008
Gross hotel revenue		—	17,218	17,218
Total		<u>470,405</u>	<u>20,821</u>	<u>491,226</u>
Segment results				
	(a)	<u>469,046</u>	<u>11,217</u>	480,263
Fair value changes on investment properties		(585,092)	—	(585,092)
Fair value changes on investment properties - right-of-use assets	(a)	(4,532)	—	(4,532)
Depreciation		—	(4,753)	(4,753)
Interest income				1,075
REIT Manager fees				(56,140)
Trust, professional and other expenses				(4,385)
Finance costs - excluding distribution to Unitholders	(a)			<u>(144,613)</u>
Loss before tax and distribution to Unitholders				<u>(318,177)</u>

- (a) Upon the adoption of HKFRS 16, the segment results and the fair value changes on investment properties - right-of-use assets increased by HK\$4,893,000 and HK\$4,532,000, respectively. The finance costs excluding distribution to Unitholders increased by HK\$361,000. Further details of which are included in note 2.2 to the condensed consolidated financial statements.

The operating segments of the Group for the six months ended 30th June, 2018 were as follows:

	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Segment revenue			
Gross rental revenue	470,508	3,603	474,111
Gross hotel revenue	—	17,905	17,905
Total	<u>470,508</u>	<u>21,508</u>	<u>492,016</u>
Segment results	<u>464,722</u>	<u>11,930</u>	476,652
Fair value changes on investment properties	716,039	—	716,039
Depreciation	—	(4,574)	(4,574)
Interest income			294
REIT Manager fees			(53,114)
Trust, professional and other expenses			(10,510)
Finance costs - excluding distribution to Unitholders			<u>(131,373)</u>
Profit before tax and distribution to Unitholders			<u>993,414</u>

Segment assets and liabilities

As part of the Group's performance assessment, the fair values of investment properties, property, plant and equipment and investment properties - right-of-use assets are reviewed by the Group's chief operating decision-maker.

As at 30th June, 2019, the Group's segment assets, comprised of the aggregate fair values of the investment properties, property, plant and equipment and investment properties - right-of-use assets in the hotel properties segment and the mixed use property segment, amounted to HK\$26,211,000,000 (31st December, 2018: HK\$26,773,000,000), HK\$915,000,000 (31st December, 2018: HK\$930,000,000) and HK\$26,693,000 (31st December, 2018: nil), respectively.

Save as set out above, no other assets and liabilities are included in the assessment of the Group's segment performance.

Other segment information

	Six months ended 30th June, 2019		
	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Capital expenditures	<u>23,092</u>	<u>164</u>	<u>23,256</u>

	Six months ended 30th June, 2018		
	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Capital expenditures	<u>8,961</u>	<u>799</u>	<u>9,760</u>

Capital expenditures consist of additions to investment properties and property, plant and equipment.

Information about a major customer

For the six months ended 30th June, 2019, revenue of HK\$470,405,000 (six months ended 30th June, 2018: HK\$470,508,000) was derived from the lease of hotel properties to a single lessee which is a related company.

Geographical information

The Group's investment properties, property, plant and equipment and investment properties - right-of-use assets are all located in Hong Kong.

4. NET RENTAL AND HOTEL INCOME

Revenue represents the gross rental revenue received and receivable from its investment properties, and gross hotel revenue during the period.

The net rental and hotel income represents the aggregate of:

- (a) Net rental income, being the gross rental revenue less property operating expenses; and
- (b) Net hotel income, being the gross hotel revenue less hotel operating expenses.

An analysis of the gross and net rental and hotel income is as follows:

	Notes	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Gross rental revenue			
Rental income			
Initial Hotels	(a)	388,000	391,156
iclub Wan Chai Hotel - Non-hotel portions		3,603	3,603
iclub Sheung Wan Hotel	(b)	23,000	22,144
iclub Fortress Hill Hotel	(c)	23,000	21,195
iclub Ma Tau Wai Hotel	(d)	30,332	30,332
Other income		6,073	5,681
		474,008	474,111
Property operating expenses	(f)	(1,677)	(6,144)
Net rental income		472,331	467,967
Gross hotel revenue			
Hotel operating expenses	(f)	(9,286)	(9,220)
Net hotel income		7,932	8,685
Net rental and hotel income		480,263	476,652
Revenue from contracts with customers			
Gross hotel revenue	(e)	17,218	17,905
Revenue from other sources			
Gross rental income		474,008	474,111

Notes:

(a) An analysis of the Initial Hotels rental income is as follows:

	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Base Rent	388,000	375,500
Variable Rent	—	15,656
	<u>388,000</u>	<u>391,156</u>

(b) An analysis of the iclub Sheung Wan Hotel rental income is as follows:

	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Base Rent	23,000	21,000
Variable Rent	—	1,144
	<u>23,000</u>	<u>22,144</u>

(c) An analysis of the iclub Fortress Hill Hotel rental income is as follows:

	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Base Rent	23,000	21,195
Variable Rent	—	—
	23,000	21,195

(d) An analysis of the iclub Ma Tau Wai Hotel rental income is as follows:

	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Contractual cash rental income	28,900	27,200
Difference in accounting rental income and contractual cash rental income	1,432	3,132
	30,332	30,332

(e) Gross hotel revenue is recognised over time.

(f) Upon the adoption of HKFRS 16, the property operating expenses were reduced to HK\$1,677,000 as the lease payments of HK\$4,893,000 were not recognised in profit or loss. Further details of which are included in note 2.2 to the condensed consolidated financial statements.

5. REIT MANAGER FEES

	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Base Fees	41,628	38,618
Variable Fees	14,512	14,496
	<u>56,140</u>	<u>53,114</u>

Under the Trust Deed, the REIT Manager is entitled to receive the following:

- a base fee (the "Base Fee") of currently 0.3% (subject to a maximum of 0.5%) per annum of the consolidated gross assets of Regal REIT which is payable monthly (in the form of Units and/or cash) and subject to adjustments (in the form of cash) based on the value of the audited total assets of Regal REIT as at the end of the reporting period for the relevant financial year; and
- a variable fee (the "Variable Fee") of currently 3% (subject to a maximum of 5%) per annum of the net property income for the relevant financial year as defined in the Trust Deed in respect of each Initial Hotel, iclub Wan Chai Hotel, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel, which is payable annually.

For the financial years 2019 and 2018, the REIT Manager elected to receive its Base Fees and Variable Fees in the form of cash, details of which can be referred to an announcement of Regal REIT published on 10th December, 2018.

6. TRUST, PROFESSIONAL AND OTHER EXPENSES

	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Auditor's remuneration	1,128	1,101
Legal and other professional fees	494	1,277
Trustee fees	2,084	1,931
Foreign exchange differences, net	—	5,455
Other expenses	679	746
	4,385	10,510

7. FINANCE COSTS – EXCLUDING DISTRIBUTION TO UNITHOLDERS

	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on interest-bearing bank borrowings	132,148	93,753
Interest expense on other borrowings	—	26,217
Amortisation of debt establishment costs	10,199	10,213
Interest expense on lease liabilities	361	—
	142,708	130,183
Others	1,905	1,190
	144,613	131,373

- (a) Upon the adoption of HKFRS 16, the Group recognised interest expense on lease liabilities of HK\$361,000. Further details of which are included in note 2.2 to the condensed consolidated financial statements.

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30th June, 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Current	28,248	31,500
Deferred (note 19)	16,520	18,991
Total tax charge for the period	44,768	50,491

9. EARNINGS/(LOSS) PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of the basic loss per Unit attributable to Unitholders is based on the loss for the period before distribution to Unitholders of HK\$362,945,000 (six months ended 30th June, 2018: earnings of HK\$942,923,000) and the weighted average of 3,257,431,189 Units (six months ended 30th June, 2018: 3,257,431,189 Units) in issue during the period. The basic loss per Unit attributable to Unitholders for the period amounted to HK\$0.111 (six months ended 30th June, 2018: basic earnings per Unit of HK\$0.289).

The diluted earnings/(loss) per Unit attributable to Unitholders is the same as the basic earnings/(loss) per Unit attributable to Unitholders as there were no dilutive instruments in issue during the period (six months ended 30th June, 2018: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

	Authorised investments
	Hotel properties HK\$'000
At 1st January, 2018	656,000
Additions	1,746
Surplus on revaluation	60,504
Depreciation provided during the year	(9,250)
	<hr/>
At 31st December, 2018 (audited) and 1st January, 2019	709,000
Additions	164
Deficit on revaluation	(10,411)
Depreciation provided during the period	(4,753)
	<hr/>
At 30th June, 2019 (unaudited)	694,000

The Group's property, plant and equipment represents the value of land and building together with furniture, fixtures and equipment of iclub Wan Chai Hotel for the hotel portion. The REIT Manager has determined that the property, plant and equipment constitute one class of asset (i.e. hotel property) based on the nature, characteristics and risks of the property. The property, plant and equipment was valued by CBRE Limited ("CBRE"), an independent property valuer and the principal valuer of Regal REIT, at HK\$694,000,000 as at 30th June, 2019 (31st December, 2018: HK\$709,000,000). A revaluation deficit of HK\$10,411,000 (31st December, 2018: surplus of HK\$60,504,000) resulting from the valuation as at 30th June, 2019 has been charged to other comprehensive loss (31st December, 2018: credited to other comprehensive income).

The property, plant and equipment is categorised as Level 3 in the fair value hierarchy.

The iclub Wan Chai Hotel has been pledged to secure banking facilities granted to the Group (note 18).

The carrying amount of the Group's property, plant and equipment would have been HK\$397,780,000 (31st December, 2018: HK\$400,802,000) had such assets been stated in the condensed consolidated financial statements at cost less accumulated depreciation.

Further particulars of the Group's hotel properties are included on page 68.

11. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES - RIGHT-OF-USE ASSETS

	Note	Right-of-use assets HK\$'000	Authorised investments		Total HK\$'000
			Hotel properties HK\$'000	Commercial properties HK\$'000	
At 1st January, 2018		—	24,915,000	221,000	25,136,000
Fair value changes		—	1,789,143	—	1,789,143
Capital expenditures for the year		—	68,857	—	68,857
At 31st December, 2018 (audited)		—	26,773,000	221,000	26,994,000
Effect of adoption of HKFRS 16		23,199	—	—	23,199
At 1st January, 2019 (restated) (unaudited)		23,199	26,773,000	221,000	27,017,199
Additions		8,026	—	—	8,026
Fair value changes	(a)	(4,532)	(585,092)	—	(589,624)
Capital expenditures for the period		—	23,092	—	23,092
At 30th June, 2019 (unaudited)		26,693	26,211,000	221,000	26,458,693

The REIT Manager has determined that the investment properties constitute two classes of asset (i.e. hotel and commercial properties) based on the nature, characteristics and risks of each property.

The Group's investment properties were valued by CBRE at HK\$26,432,000,000 as at 30th June, 2019 (31st December, 2018: HK\$26,994,000,000). The investment properties are leased to a related company and other commercial tenants under operating leases. Further details of which are included in note 23(a) to the condensed consolidated financial statements.

The investment properties are categorised as Level 3 in the fair value hierarchy.

Initial Hotels, together with iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel, have been pledged to secure banking facilities granted to the Group (note 18).

Further particulars of the Group's investment properties are included on pages 67 to 68.

Upon the adoption of HKFRS 16, the Group recognised right-of-use assets as investment properties. Further details of which are included in note 2.2 to the condensed consolidated financial statements.

- (a) The Group's investment properties constitute the Group's investment properties and the right-of-use assets. For the purpose of calculation of distributable income, only the fair value changes on investment properties would be adjusted in the distribution statement.

12. ACCOUNTS RECEIVABLE

	30th June, 2019 (unaudited) HK\$'000	31st December, 2018 (audited) HK\$'000
Difference in accounting rental income and contractual cash rental income	9,355	7,923
Variable Rent receivables	—	51,738
Other accounts receivable	784	1,321
	10,139	60,982

The difference in accounting rental income and contractual cash rental income is recognised as revenue in the condensed consolidated statement of profit or loss on the straight-line basis over the lease term in accordance with the Group's accounting policy.

The Group's accounts receivable as at the end of the reporting period, based on invoice dates, are aged as being within 3 months. No accounts receivable are past due at the end of the reporting period.

The Variable Rent receivables represent amounts due from a related company which are unsecured, interest-free and receivable in accordance with the terms of the respective agreements.

The general credit terms for other accounts receivable are 30 days. The Group seeks to maintain control over the outstanding receivables and to minimise any credit risk associated thereon.

13. RESTRICTED CASH

The restricted cash of the Group is kept in designated bank accounts in accordance with the relevant facility agreements and is restricted mainly for servicing finance costs on certain interest-bearing bank borrowings, funding and utilisation of furniture, fixtures and equipment expenditures for the Initial Hotels, iclub Wan Chai Hotel - Hotel portion, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel, and holding rental deposits from certain tenants.

14. CASH AND CASH EQUIVALENTS

	30th June, 2019 (unaudited) HK\$'000	31st December, 2018 (audited) HK\$'000
Cash and bank balances	58,079	105,326
Non-pledged time deposit with an original maturity of less than three months when acquired	40,000	15,000
Non-pledged time deposit with an original maturity of more than three months when acquired	10,100	10,000
Cash and cash equivalents	108,179	130,326

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

15. ACCOUNTS PAYABLE

	30th June, 2019 (unaudited) HK\$'000	31st December, 2018 (audited) HK\$'000
Amounts due to related companies	40,830	86,437
Other accounts payable	353	274
	<u>41,183</u>	<u>86,711</u>

The amounts due to related companies are unsecured, interest-free and repayable on demand. Other accounts payable are unsecured, non interest-bearing and are normally settled within 90 days.

The Group's accounts payable as at the end of the reporting period, based on invoice dates, are all aged within 3 months.

16. CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract liabilities:

	30th June, 2019 (unaudited) HK\$'000	31st December, 2018 (audited) HK\$'000
Advances from customers	<u>1,095</u>	<u>1,246</u>

Contract liabilities included the advance receipts from customers under hotel operations.

17. LEASE LIABILITIES

Upon the adoption of HKFRS 16, the Group recognised lease liabilities. Further details of which are included in note 2.2 to the condensed consolidated financial statements.

18. INTEREST-BEARING BANK BORROWINGS

	30th June, 2019 (unaudited) HK\$'000	31st December, 2018 (audited) HK\$'000
Interest-bearing bank borrowings	9,980,000	9,980,000
Debt establishment costs	(56,517)	(66,716)
	9,923,483	9,913,284
Portion classified as current liabilities	(439,750)	(439,492)
Non-current portion	9,483,733	9,473,792
Amounts repayable:		
Within one year	439,750	439,492
In the second year	746,676	746,121
In the third to fifth years, inclusive	8,737,057	8,727,671
	9,923,483	9,913,284

On 12th September, 2016, Regal REIT, through wholly-owned subsidiaries, Bauhinia Hotels Limited and Rich Day Investments Limited, entered into a facility agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$1,000.0 million (the "2016 IH Facilities"), for a term of five years to September 2021. The 2016 IH Facilities are secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. As at 30th June, 2019, the 2016 IH Facilities had an outstanding term loan facility of HK\$4,500.0 million and the full amount of the revolving loan facility was un-utilised.

On 8th March, 2018, Regal REIT, through a wholly-owned subsidiary, Ricobem Limited, arranged a bilateral term loan facility of HK\$3,000.0 million (the "2018 RKH Facility"), secured by a mortgage over the Regal Kowloon Hotel. The 2018 RKH Facility has a term of five years to March 2023. As at 30th June, 2019, the outstanding amount of the 2018 RKH Facility was HK\$3,000.0 million, representing the full amount of the term loan facility.

On 22nd December, 2014, the term loan facility agreement for a principal amount of HK\$440.0 million (the "2014 WC Facility"), with a term of five years to December 2019, was entered into by Sonnix Limited, a wholly-owned subsidiary of Regal REIT. The 2014 WC Facility is secured by the iclub Wan Chai Hotel. As at 30th June, 2019, the outstanding amount on the 2014 WC Facility was HK\$440.0 million, representing the full amount of the term loan facility.

On 19th October, 2018, Regal REIT, through a wholly-owned subsidiary, Tristan Limited, arranged a bilateral loan facility of up to HK\$790.0 million, comprised of a term loan facility of HK\$632.0 million and a revolving loan facility of up to HK\$158.0 million (the "2018 SW Facilities"), secured by the iclub Sheung Wan Hotel. The 2018 SW Facilities have a term of five years to October 2023. As at 30th June, 2019, the utilised amount of the 2018 SW Facilities was HK\$632.0 million, representing the full amount of the term loan facility.

On 29th November, 2018, Regal REIT, through a wholly-owned subsidiary, Wise Decade Investments Limited, arranged another bilateral loan facility of up to HK\$825.0 million, comprised of a term loan facility of HK\$660.0 million and a revolving loan facility of up to HK\$165.0 million (the "2018 FH Facilities"), secured by the iclub Fortress Hill Hotel. The 2018 FH Facilities have a term of five years to November 2023. As at 30th June, 2019, the outstanding amount of the 2018 FH Facilities was HK\$660.0 million, representing the full amount of the term loan facility.

On 4th September, 2017, Regal REIT, through a wholly-owned subsidiary, Land Crown International Limited, arranged a term loan facility of HK\$748.0 million (the "2017 MTW Facility"), secured by the iclub Ma Tau Wai Hotel. The 2017 MTW Facility has a term of three years to September 2020. As at 30th June, 2019, the outstanding amount of the 2017 MTW Facility was HK\$748.0 million, representing the full amount of the term loan facility.

As at 30th June, 2019, the outstanding loan facilities bore interest at the Hong Kong Interbank Offered Rate plus an interest margin ranging from 0.92% per annum to 1.45% per annum (31st December, 2018: ranging from 0.92% per annum to 1.45% per annum).

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

The Group's interest-bearing bank borrowings are also secured by, amongst others:

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

19. DEFERRED TAX

The movements in deferred tax assets and liabilities during the period/year were as follows:

	Fair value adjustments arising from revaluation of property, plant and equipment HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
Gross deferred tax assets/(liabilities) at 1st January, 2018	(41,319)	(523,634)	14,659	(550,294)
Deferred tax charged to other comprehensive income during the year	(9,983)	—	—	(9,983)
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year	449	(37,175)	(3,300)	(40,026)
Gross deferred tax assets/(liabilities) at 31st December, 2018 (audited)	<u>(50,853)</u>	<u>(560,809)</u>	<u>11,359</u>	<u>(600,303)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2019	(50,853)	(560,809)	11,359	(600,303)
Deferred tax credited to other comprehensive loss during the period	1,718	—	—	1,718
Deferred tax credited/(charged) to the condensed consolidated statement of profit or loss during the period (note 8)	<u>259</u>	<u>(15,548)</u>	<u>(1,231)</u>	<u>(16,520)</u>
Gross deferred tax assets/(liabilities) at 30th June, 2019 (unaudited)	<u>(48,876)</u>	<u>(576,357)</u>	<u>10,128</u>	<u>(615,105)</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the condensed consolidated statement of financial position.

20. NUMBER OF UNITS IN ISSUE

	Number of Units	
	30th June, 2019 (unaudited)	31st December, 2018 (audited)
At beginning and end of the period/year	<u>3,257,431,189</u>	<u>3,257,431,189</u>

21. NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per Unit attributable to Unitholders is calculated by dividing the net assets attributable to Unitholders as at 30th June, 2019 of HK\$16,695,313,000 (31st December, 2018: HK\$17,314,516,000) by the number of Units in issue of 3,257,431,189 (31st December, 2018: 3,257,431,189) as at that date.

22. NOTE TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Lease liabilities HK\$'000	Interest- bearing bank borrowings HK\$'000	Other borrowings HK\$'000
At 1st January, 2018	—	7,807,603	1,945,768
Changes from financing cash flows	—	2,088,013	(1,952,350)
Non-cash changes:			
Increase in debt establishment cost payable	—	(4,125)	—
Amortisation of debt establishment costs	—	21,793	590
Interest expense	—	—	596
Foreign exchange movement	—	—	5,396
At 31st December, 2018 (audited)	—	9,913,284	—
Effect of adoption of HKFRS 16	23,199	—	—
At 1st January, 2019 (restated) (unaudited)	23,199	9,913,284	—
Changes from financing cash flows	(4,532)	—	—
Non-cash changes:			
Additions	8,026	—	—
Amortisation of debt establishment costs	—	10,199	—
At 30th June, 2019 (unaudited)	<u>26,693</u>	<u>9,923,483</u>	—

23. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties, as set out in note 11, and certain premises under operating lease arrangements. At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	30th June, 2019 (unaudited) HK\$'000	31st December, 2018 (audited) HK\$'000
Within one year	509,483	941,145
In the second to fifth years, inclusive	146,437	175,747
	<u>655,920</u>	<u>1,116,892</u>

Certain of the leases contain Base Rent and Variable Rent provisions.

Certain of the operating leases were entered into between the Group and a related company.

(b) As lessee

The Group leased certain premises under operating lease arrangements which had been negotiated for terms ranging from 1 to 12 years. At 31st December, 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31st December, 2018 (audited) HK\$'000
Within one year	7,805
In the second to fifth years, inclusive	<u>564</u>
	<u>8,369</u>

The operating leases were entered into on behalf of a related company.

During the six months ended 30th June, 2018, the total minimum lease payments under operating leases in respect of land and buildings included in property and hotel operating expenses of HK\$4,663,000 were charged to the condensed consolidated statement of profit or loss.

Upon the adoption of HKFRS 16, the operating lease commitment were reconciled and recognised as lease liabilities since 1st January, 2019. Therefore, no operating lease commitment was disclosed as at 30th June, 2019.

24. COMMITMENTS

In addition to the operating lease commitments detailed in note 23(b) above, the Group had the following capital commitments in respect of its properties at the end of the reporting period:

	30th June, 2019 (unaudited) HK\$'000	31st December, 2018 (audited) HK\$'000
Authorised and contracted for	2,773	—
Authorised, but not contracted for	55,107	72,996
	57,880	72,996

25. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these condensed consolidated financial statements, the Group had the following material transactions with connected and/or related parties during the period:

Connected/related parties	Relationship with the Group
DB Trustees (Hong Kong) Limited	The Trustee of Regal REIT
Deutsche Bank AG and its associates (the "Deutsche Bank Group")	Connected persons of the Trustee
Regal Hotels International Holdings Limited and other members of its group (collectively, the "RHIHL Group")	Significant Unitholders of Regal REIT
Regal Portfolio Management Limited	The REIT Manager of Regal REIT and a member of the RHIHL Group
Paliburg Holdings Limited and other members of its group (collectively, the "PHL Group")	Controlling shareholders of the RHIHL Group
CBRE Limited	The current principal valuer of the Group
Colliers International (Hong Kong) Limited	The former principal valuer of the Group

(a) Transactions with connected/related parties:

	Notes	Six months ended 30th June, 2019 (unaudited) HK\$'000	Six months ended 30th June, 2018 (unaudited) HK\$'000
Contractual rental income received/receivable from the RHIHL Group	(i)	468,973	467,376
Rental income received/receivable from the RHIHL Group	(ii)	922	922
Hotel management fees charged by the RHIHL Group	(iii)	(762)	(815)
Marketing fees charged by the RHIHL Group	(iv)	(172)	(179)
Building management fees charged by the PHL Group	(v)	(316)	(300)
REIT Manager fees	(vi)	(56,140)	(53,114)
Trustee fees	(vii)	(2,084)	(1,931)
Valuation fees paid/payable to the principal valuer	(viii)	(200)	(260)

Notes:

- (i) The rental income earned by the Group was in accordance with the relevant lease agreements with respect to the Initial Hotels, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel.
- (ii) The rental income earned by the Group was in accordance with the relevant tenancy agreement with respect to Shop Nos. A & B, which is part of the iclub Wan Chai Hotel.
- (iii) The hotel management fees in respect of iclub Wan Chai Hotel - Hotel portion were comprised of (a) a base fee, for an amount based on 2% of the gross hotel revenue, and (b) an incentive fee based on 5% of the excess of the gross operating profit over the base fee and fixed charges in accordance with the corresponding hotel management agreement.
- (iv) The marketing fees in respect of iclub Wan Chai Hotel - Hotel portion were charged at 1% of the gross hotel revenue of iclub Wan Chai Hotel - Hotel portion in accordance with the corresponding hotel management agreement.
- (v) The building management fees were charged at a mutually agreed amount payable on a monthly basis in respect of iclub Wan Chai Hotel - Non-hotel portions.
- (vi) The REIT Manager is entitled to receive Base Fees and Variable Fees, details of which, including the terms, are set out in note 5 to the condensed consolidated financial statements.
- (vii) The Trustee is entitled to receive trustee fees (calculated and payable quarterly) at rates ranging from 0.015% per annum to 0.025% per annum based on the value of all the assets of Regal REIT as at the end of the reporting period subject to a minimum of HK\$66,000 per month.
- (viii) The valuation fees were charged by the principal valuer in accordance with the terms of the relevant agreements.

The above transactions have been entered into in the ordinary course of business and on normal commercial terms.

(b) Balances with connected/related parties were as follows:

	Notes	30th June, 2019 (unaudited) HK\$'000	31st December, 2018 (audited) HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables	(i)	—	51,738
Accounts payable to related companies	(ii)	(40,830)	(86,437)
Deposit received	(iv)	(461)	(461)
Amounts due from related companies	(ii)	1,874	6,967
Amounts due to related companies	(ii)	(674)	(3,470)
Net amounts due from the PHL Group:			
Deposits paid	(ii)	1,212	1,212
Net amounts due to:			
The Trustee	(iii)	(1,046)	(1,245)
The principal valuer	(iv)	(200)	(350)
Restricted and non-restricted bank balances with the Deutsche Bank Group			
	(v)	<u>155</u>	<u>155</u>

Notes:

- (i) Details of the balances are set out in note 12 to the condensed consolidated financial statements.
 - (ii) The amounts are unsecured, interest-free and repayable on demand/within one year.
 - (iii) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
 - (iv) The amount is repayable in accordance with the terms of the relevant agreement.
 - (v) The bank balances earn interest at prevailing market rates.
- (c) The RHIHL Group has guaranteed to pay all amounts from time to time owing or payable by the lessee of the Initial Hotels to the Group under the respective lease agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. In this connection, the RHIHL Group undertook to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK\$4 billion. Under the Market Rental Package for 2019, the RHIHL Group provided third party guarantee as security deposit for an amount of HK\$194.0 million (2018: HK\$187.75 million), which is equivalent to three-month Base Rent for the year 2019, issued by a licensed bank in Hong Kong.

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- (d) Under a deed of trade mark licence, the RHIHL Group granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trade marks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.
 - (e) On 23rd December, 2010, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Wan Chai Hotel for a 10-year term commencing on 1st January, 2011.
 - (f) On 10th February, 2014, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Sheung Wan Hotel for a 10-year term commencing on 10th February, 2014.
 - (g) On 28th July, 2014, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Fortress Hill Hotel for a 10-year term commencing on 28th July, 2014.
 - (h) On 4th September, 2017, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Ma Tau Wai Hotel for a 10-year term commencing on 4th September, 2017.

26. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The REIT Manager considers that the carrying amounts of the financial assets and financial liabilities recorded in the condensed consolidated financial statements approximated their fair values at the end of the reporting period.

27. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, a new 5-year term loan facility of HK\$440.0 million was granted by the same bank to early refinance the 2014 WC Facility. Most of the key terms remain unchanged while the new loan facility bears a lower interest margin with maturity to July 2024.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



**To the board of directors of Regal Portfolio Management Limited
(as manager of Regal Real Estate Investment Trust)**

INTRODUCTION

We have reviewed the interim financial information set out on pages 31 to 65, which comprises the condensed consolidated statement of financial position of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries as at 30th June, 2019, and the related condensed consolidated statement of profit or loss, statement of comprehensive income, statement of changes in net assets and statement of cash flows and the distribution statement for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The Manager of Regal REIT is responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

26th August, 2019

SUMMARY OF PROPERTY PORTFOLIO

As at 30th June, 2019

Description	Use	Lease	Gross Floor Area (sq.m.)	Approx. Covered Floor Area (sq.m.)	Percentage interest attributable to Regal REIT
(1) Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	Hotel	Medium term	71,988	83,400	100
(2) Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	Hotel	Long term	25,090	32,000	100
(3) Regal Kowloon Hotel 71 Mody Road Tsimshatsui Kowloon Hong Kong	Hotel	Long term	31,746	43,500	100
(4) Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and the whole of 1/F Po Sing Court 21-25 Shek Ku Lung Road 40-42 Sa Po Road and 15-29 Carpenter Road Kowloon City Kowloon Hong Kong	Hotel	Medium term	22,601	27,300	100

As at 30th June, 2019

	Description	Use	Lease	Gross Floor Area (sq.m.)	Approx. Covered Floor Area (sq.m.)	Percentage interest attributable to Regal REIT
(5)	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin, New Territories Hong Kong	Hotel	Medium term	59,668	69,100	100
(6)	iclub Wan Chai Hotel Shops A, B and C on G/F, Flat Roof on 3/F, Whole of 5-12/F, 15-23/F and 25-29/F Eastern and Western Elevations of External Walls Architectural Feature at Roof Top and Upper Roof 211 Johnston Road Wan Chai Hong Kong	Hotel/ commercial	Long term	5,326	5,530	100
(7)	iclub Sheung Wan Hotel 138 Bonham Strand Sheung Wan Hong Kong	Hotel	Long term	7,197	9,600	100
(8)	iclub Fortress Hill Hotel 18 Merlin Street North Point Hong Kong	Hotel	Long term	6,849	9,400	100
(9)	iclub Ma Tau Wai Hotel 8 Ha Heung Road Kowloon Hong Kong	Hotel	Long term	6,298	9,490	100





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