



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)



2022 INTERIM REPORT



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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Causeway Bay,
Hong Kong.
Tel: 2805-6336
Fax: 2577-8686
Email: info@regalreit.com

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

NOMINATION COMMITTEE OF THE REIT MANAGER

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

RESPONSIBLE OFFICERS OF THE REIT MANAGER

Johnny Chen Sing Hung
Simon Lam Man Lim

SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

TRUSTEE OF REGAL REIT

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

AUDITOR

Ernst & Young
Registered Public Interest Entity Auditor

PRINCIPAL VALUER

Colliers International (Hong Kong) Limited

PRINCIPAL BANKERS

Bank of Communication (Hong Kong) Limited
The Bank of East Asia, Limited
Cathay United Bank Company, Limited, Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
Chong Hing Bank Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Oversea-Chinese Banking Corporation Limited,
Hong Kong Branch
United Overseas Bank Limited

LEGAL ADVISER

Baker & McKenzie

UNIT REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
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WEBSITE

www.RegalREIT.com

Dear Unitholders,

I am pleased to present, on behalf of the Board of Directors of Regal Portfolio Management Limited as the REIT Manager, the 2022 Interim Report of Regal Real Estate Investment Trust.

FINANCIAL RESULTS

For the Interim Period ended 30th June, 2022, Regal REIT recorded an unaudited consolidated profit before distribution to Unitholders of HK\$613.1 million, as compared to a loss of HK\$74.5 million for the corresponding period in 2021.

Net rental and hotel income for the Interim Period amounted to HK\$340.4 million, an increase of HK\$52.4 million over the HK\$288.0 million attained in the same period last year. Apart from the increased net rental and hotel income, a major part of the profit achieved for the Interim Period was attributable to the gain of HK\$444.3 million in the fair value of Regal REIT's investment property portfolio, based on the market valuations appraised by the principal valuer as of 30th June, 2022, as compared to the last appraised value as of 31st December, 2021. For the corresponding period last year, a fair value loss of HK\$213.1 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\$168.8 million, as compared to the HK\$138.6 million for the same period in 2021.

Total distributable income for the Interim Period, after taking into account the various non-cash adjustments, amounted to HK\$183.1 million (equivalent to approximately HK\$0.056 per Unit), an increase of 13.2% as compared to HK\$161.7 million (equivalent to approximately HK\$0.050 per Unit) for the corresponding period in 2021.

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\$0.051 per Unit for the six months ended 30th June, 2022 (2021 interim distribution – HK\$0.045 per Unit), which represents a distribution ratio of approximately 90.7% for the Interim Period.

HOTEL MARKET AND BUSINESS REVIEW

Based on a recent research report by the World Bank Group, the world economy continued to suffer from a series of destabilising shocks during the first half of 2022. After more than two years of pandemic, the recent war in Ukraine has led to high commodity prices, supply chain disruptions, inflation and tighter financial conditions, which have steepened the slowdown in global growth. The outlook for the global economy is overshadowed by various downside risks.

Due mainly to the sporadic COVID-19 outbreaks and related strict lockdowns, economic activities in China have slowed sharply, with growth in consumer spending particularly subdued. Trade and manufacturing investments have lost momentum, owing to supply disruptions. According to preliminary estimates, the Gross Domestic Product (GDP) of China for the first half of 2022 only increased by 2.5% year-on-year. It is expected that China will implement more stimulus plans to boost the economy, in order that its GDP growth for the whole year of 2022 can catch up to its anticipated target.

Impacted by the global economic events and the pandemic, Hong Kong's economy suffered a major setback in the first quarter of 2022, with its GDP having decreased by 3.9% year-on-year. As the pandemic situation began to subside, the local labour market regained some momentum in the second quarter. The seasonally adjusted unemployment rate decreased from 5.1% in the 3-month period from March to May to 4.7% in April to June in 2022. Moreover, the drop in Hong Kong's GDP in real terms in the second quarter of 2022 also moderated to 1.3%, as compared with a year earlier.

Due to the outburst of the 5th wave of the pandemic in Hong Kong early this year, travel restrictions and quarantine measures were tightened and many international flights were banned. It was only in the second quarter that these restrictive measures were gradually relaxed and overseas visitors permitted to enter Hong Kong from May 2022.

Under this environment, there were only about 76,000 visitors to Hong Kong in the first half of 2022, of which approximately 62,000 were visitors from Mainland China. Although these numbers represented an increase of 125.2% and 155.4% year-on-year, respectively, the sharp increases in percentage terms merely reflect the very low comparative base in 2021. In terms of absolute numbers, the number of total visitor arrivals in the first half of 2022 only accounted for a minute fraction of the pre-pandemic levels.

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 up from 56.0% in 2021 to 63.0% in 2022, while the average achieved room rate improved by 23.8%, thus resulting in an increment of 39.2% in their average Revenue per Available Room (RevPAR) year-on-year.

During the Interim Period, the nine hotel properties of Regal REIT continued to operate under two different business modes. Specifically, five of our hotels, namely, Regal Airport Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel were operating as quarantine hotels or facilities under the various quarantine or isolation schemes organised by the Hong Kong Government to combat the COVID-19 pandemic, while the remaining four hotels, namely, Regal Hongkong Hotel, Regal Riverside Hotel, iclub Wan Chai Hotel and iclub Sheung Wan Hotel, continued to operate normal hotel businesses serving mostly local customers for long stay or staycation purposes. As the hotels operating as quarantine hotels or facilities under the government schemes have generated steady revenues, the operating performance of the hotel portfolio as a whole in the first half of 2022 secured substantial improvement over the same period last year.

Under this mixed operating structure, the combined average occupancy of the five Initial Hotels in Hong Kong during the Interim Period was 68.8%, as compared to 47.5% for the same period last year, while their combined average room rate increased by 119.1%. Consequently, their combined average RevPAR improved overall by 217.1% year-on-year. The prevailing aggregate base rent for 2022 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\$475.0 million. As the aggregate net property income ("NPI") of these five hotels for the Interim Period was above the pro-rated base rent of HK\$237.5 million, variable rent of HK\$26.8 million was earned, which will be subject to adjustment based on their aggregate NPI achieved for the whole year.

Apart from the five Initial Hotels operating under the “Regal” brand, Regal REIT also owns four other hotel properties in Hong Kong, all under the “iclub by Regal” brand name. The “iclub” brand is a special 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, this hotel maintained an occupancy rate of 88.9%, which was 13.2 percentage points higher than the same period last year, while its average room rate increased by 25.4%, resulting in an increase of 47.3% in its RevPAR year-on-year. Consequently, the NPI from this property, including the lease rentals from the non-hotel portions, substantially improved as compared to the first half last year.

The other three iclub hotels, namely, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel have also been leased to the same RHIHL lessee. The prevailing annual base rent for 2022 for each of iclub Sheung Wan Hotel and iclub Fortress Hill Hotel, as determined by an independent professional property valuer under the terms of the market rental packages, was HK\$27.0 million. During the Interim Period, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel attained a combined average occupancy rate of 80.5%, an increase of 7.7 percentage points as compared to the corresponding period in 2021. At the same time, their combined average room rate increased by 177.3%, which overall translated into an improvement of 207.0% in their combined average RevPAR year-on-year. For the Interim Period, variable rent of HK\$13.8 million was earned by iclub Fortress Hill Hotel, which will likewise be subject to adjustment on a full year basis.

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\$34.0 million. As reported earlier, in December 2021, Regal REIT exercised the option granted to it under the existing lease agreement to extend the lease term of the iclub Ma Tau Wai Hotel to 31st December, 2027, with rentals in the extended term to be based on independent annual market reviews. In May 2022, the independent professional valuer jointly appointed by the lessor and the lessee determined the base rent under the market rental package for this hotel for the first lease period under the extended term to be HK\$8.8 million for the period from 4th September, 2022 to 31st December, 2022 (prorated from a base rent of HK\$27.0 million for the whole year of 2022) and HK\$30.0 million for 2023.

In late June 2022, Regal REIT concluded a 5-year term loan facility of HK\$2,950.0 million with a new lender, similarly secured by the Regal Kowloon Hotel, which was used to refinance the then outstanding term loan facility of HK\$3,000.0 million originally to mature in March 2023.

BUSINESS OUTLOOK

The Hong Kong Government recently announced the further relaxation of the quarantine requirements for foreign visitors from 7 days hotel quarantine to 3 days, followed by medical surveillance at home for 4 days. This is a positive step towards normalisation of international traffic and connections with the global community. However, in order that the economy of Hong Kong can rapidly revive, Hong Kong will need to reopen its cross border traffic with the Mainland as soon as practicable, particularly when the economic environment worldwide is getting increasingly uncertain and volatile. This year marked the 25th Anniversary of Hong Kong’s Return to China. With the policy support from China, Hong Kong should take the opportunity to move towards the goals of being a “global metropolis”, a world-class financial center and a center for the technology innovation industry.



As the United States began to raise its interest rates since March this year to combat the heightened inflation, Hong Kong is under pressure to follow the interest rates hike. Although the pace and magnitude of the interest rate increases in Hong Kong may not be the same as in the United States, the price of assets in Hong Kong, including stocks and properties, will inevitably be affected and may further weaken the general consumption sentiment. The Hong Kong Government has implemented various initiatives, including the launching of the phase II consumption vouchers in August, to boost consumption and market confidence, but the business environment for Hong Kong for the second half of 2022 will still be challenging.

The Directors of the REIT Manager are, however, optimistic that Hong Kong, with its usual resilience, will be able to overcome these future challenges. In the meanwhile, the REIT Manager is working closely with the hotel manager to devise new business and development strategies, including plans for the staged renovation and upgrading of some of Regal REIT's hotel properties, in order that Regal REIT will be well-prepared for the market challenges as well as potential business opportunities that will emerge, as and when the travel and hotel industries in Hong Kong gradually return to normal operating conditions.

Lo Yuk Sui

Chairman

Regal Portfolio Management Limited

(as the REIT Manager of Regal REIT)

Hong Kong, 25th August, 2022

The Directors of the REIT Manager herein 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, 2022 to 30th June, 2022 (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 vision of Regal REIT and the REIT Manager is 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 expired on 31st December, 2020 under the relevant lease agreements and supplemental lease agreements (together, the “Initial Hotels Lease Agreements”). On 20th December, 2019, Regal REIT and the RHIHL Lessees entered into supplemental agreements amending each of the Initial Hotels Lease Agreements to extend the lease term of (a) Regal Airport Hotel to 27th December, 2028; and (b) each of Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel to 31st December, 2030 together with the inclusion of a non-fault based early termination provision by the lessor. The market rental packages for the extended term of each of the Initial Hotels will continue to be determined annually by a jointly appointed independent professional property valuer.

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. On 20th December, 2019, Regal REIT entered into a hotel management agreement (the “Wan Chai 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, 2021 to 31st December, 2030. 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 exercised its option to extend the lease term for a further five year period from 1st January, 2020 and expiring on 31st December, 2024 (both days inclusive). On 18th November, 2019, Regal REIT entered into a new lease agreement for the iclub Sheung Wan Hotel (the “New SW Lease Agreement”) with the RHIHL Lessee to formally effect the extension of the above-mentioned 5-year lease term. Save for the extension of the lease term as mentioned above, all the other terms and conditions of the New SW Lease Agreement remained the same as those in the SW Lease Agreement. 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 exercised its option to extend the lease term for a further five year period from 1st January, 2020 and expiring on 31st December, 2024 (both days inclusive). On 18th November, 2019, Regal REIT entered into a new lease agreement for the iclub Fortress Hill Hotel (the “New FH Lease Agreement”) with the RHIHL Lessee to formally effect the extension of the above-mentioned 5-year lease term. Save for the extension of the lease term as mentioned above, all the other terms and conditions of the New FH Lease Agreement remained the same as those in the FH Lease Agreement. 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. On 29th December, 2021, Regal REIT exercised its option to extend the lease term of iclub Ma Tau Wai Hotel for a further term, commencing from 4th September, 2022 and expiring on 31st December, 2027 (both days inclusive). On 8th June, 2022, Regal REIT and the RHIHL Lessee entered into the supplemental deed amending the MTW Lease Agreement to formally effect the extension of the abovementioned lease term. Save for the extension of the lease term as mentioned above, all the other existing terms and conditions of the MTW Lease Agreement remain unchanged. 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	1,147	Under Lease
		3,893	
<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
		1,025	
Total		4,918	

RENTAL AND REVENUE STRUCTURE

Initial Hotels - Rental Structure and Market Rental Packages

Pursuant to the extended lease terms of the Initial Hotels Lease Agreements, for the years 2011 to 2028 (for Regal Airport Hotel) and 2030 (for the other four Initial Hotels), respectively, 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 comprise 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 2028 (for Regal Airport Hotel) and 2030 (for the other four Initial Hotels), respectively, together with the amount of the security deposit required (collectively, the "IH Market Rental Package").

IH Market Rental Package for 2022

An independent professional property valuer, Ms. Stella Ho, was jointly appointed by the lessors and the RHIHL Lessee in June 2021 to conduct rent reviews for the Initial Hotels for 2022. According to the determination of the IH Market Rental Package for 2022, the aggregate amount payable by the RHIHL Lessee as annual Base Rent was determined to be HK\$475.0 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 annual Base Rent thereof in 2022. 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\$118.75 million, which is equivalent to three months’ aggregate Base Rent of the Initial Hotels for 2022. Details of the IH Market Rental Package for 2022 can be referred to in an announcement published by the REIT Manager on 26th November, 2021.

IH Market Rental Package for 2023

The market rental review for the Initial Hotels for 2023 is to be conducted by Ms. Stella Ho, who determined the IH Market Rental Package for 2022, and the IH Market Rental Package for 2023 will be determined and reported before the end of September 2022.

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. 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 and the New SW Lease Agreement, the RHIHL Lessee is obligated to pay rentals in respect of the iclub Sheung Wan Hotel to Regal REIT for the period from 10th February, 2014 to 31st December, 2024, with fixed rentals for the first three years of the lease term.

After the lapse of the three initial lease years, market rental reviews by a jointly appointed independent professional property valuer take place annually 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 2022

The same independent professional property valuer, Ms. Stella Ho, was jointly appointed in June 2021 to conduct a rent review for the iclub Sheung Wan Hotel for 2022. According to the determination of the SW Market Rental Package for 2022, the annual Base Rent payable by the RHIHL Lessee is HK\$27.0 million, with Variable Rent to be based on 50% of the excess of the NPI over the annual 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\$6.9 million, which is equivalent to three months' Base Rent together with rates and Government rent of the iclub Sheung Wan Hotel for 2022. Details of the SW Market Rental Package for 2022 can be referred to in an announcement published by the REIT Manager on 26th November, 2021.

SW Market Rental Package for 2023

The market rental review for the iclub Sheung Wan Hotel for 2023 is to be conducted by Ms. Stella Ho, who determined the SW Market Rental Package for 2022, and the SW Market Rental Package for 2023 will be determined and reported before the end of September 2022.

iclub Fortress Hill Hotel - Rental Structure and Market Rental Package

Pursuant to the FH Lease Agreement and the New FH Lease Agreement, the RHIHL Lessee is obligated to pay rentals in respect of the iclub Fortress Hill Hotel to Regal REIT for the period from 28th July, 2014 to 31st December, 2024, with fixed rentals for the first three years of the lease term.

After the lapse of the three initial lease years, market rental reviews by a jointly appointed independent professional property valuer take place annually 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 2022

The same independent professional property valuer, Ms. Stella Ho, was jointly appointed in June 2021 to conduct a rent review for the iclub Fortress Hill Hotel for 2022. According to the determination of the FH Market Rental Package for 2022, the annual Base Rent payable by the RHIHL Lessee is HK\$27.0 million, with Variable Rent to be based on 50% of the excess of the NPI over the annual 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\$7.1 million, which is equivalent to three months' Base Rent together with rates and Government rent of the iclub Fortress Hill Hotel for 2022. Details of the FH Market Rental Package for 2022 can be referred to in an announcement published by the REIT Manager on 26th November, 2021.

FH Market Rental Package for 2023

The market rental review for the iclub Fortress Hill Hotel for 2023 is to be conducted by Ms. Stella Ho, who determined the FH Market Rental Package for 2022, and the FH Market Rental Package for 2023 will be determined and reported before the end of September 2022.

iclub Ma Tau Wai Hotel - Rental Structure

Pursuant to the MTW Lease Agreement and its supplemental deed, 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 31st December, 2027, with fixed rentals for the first five years of the lease term.

Regal REIT receives annual fixed rentals for the leasing of the iclub Ma Tau Wai Hotel for the initial five years up to 3rd September, 2022 at HK\$54.4 million, HK\$57.8 million, HK\$61.2 million, HK\$64.6 million and HK\$68.0 million, respectively.

After the lapse of the initial five years of the lease term, annual rent reviews by a jointly appointed independent professional property valuer take place for each of the remaining periods of the lease term from 4th September, 2022 to 31st December, 2023, from 1st January, 2024 to 31st December, 2024, from 1st January, 2025 to 31st December, 2025, from 1st January, 2026 to 31st December, 2026 and from 1st January, 2027 to 31st December, 2027 to determine the market rental components (comprising the Base Rent, Variable Rent and the lessee's contribution to the FF&E reserve) together with the amounts of security deposits required (collectively, the "MTW Market Rental Package").

MTW Market Rental Package for 2022/23

The same independent professional property valuer, Ms. Stella Ho, was jointly appointed in March 2022 to conduct the first rent review for the Ma Tau Wai Hotel for the period from 4th September, 2022 to 31st December, 2023 (the "MTW 2022/23 Lease Year"). According to the determination of the MTW Market Rental Package for the MTW 2022/23 Lease Year, the pro-rated Base Rent payable by the RHIHL Lessee for the first period of the MTW 2022/23 Lease Year (from 4th September, 2022 to 31st December, 2022) is HK\$8.775 million, while the Base Rent for the second period of the MTW 2022/23 Lease Year (from 1st January, 2023 to 31st December, 2023) is HK\$30.0 million, with Variable Rent to be based on 50% of the excess of the NPI over the Base Rent and no FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessor for the whole period of the MTW 2022/23 Lease Year.

The RHIHL Lessee is required to provide a third party guarantee as a security deposit for an amount of HK\$7.0 million (for the first period of the MTW 2022/23 Lease Year) and HK\$7.8 million (for the second period of the MTW 2022/23 Lease Year). Details of the MTW Market Rental Package for the MTW 2022/23 Lease Year can be referred to in an announcement published by the REIT Manager on 27th May, 2022.

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under the respective Initial Hotels Lease Agreements, the Wan Chai Hotel Management Agreement, the New SW Lease Agreement and the New 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, 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 first five years of the 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\$13.6 million was contributed to the FF&E reserve with corresponding expenditures of HK\$5.9 million being recorded for the purposes intended.

Capital Additions Projects

As an ongoing initiative, Regal REIT invests in capital addition projects for continuous upgrade on the quality and standards of the rooms and facilities for its hotel properties. Regal REIT undertakes, in addition to the FF&E reserve, the funding of capital addition projects with the objective of improving portfolio competitiveness and product offerings to enhance income generating capabilities, profitability of the hotel property portfolio and enable special utilisations. Other enhancement projects may also be conducted to comply with updated licensing and building requirements or to conform to legislation enactments and standards from time to time.

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 2022 versus 1H 2021¹

Visitors to Hong Kong by Geographical Regions	1H 2022 (Percentage of total visitors)	1H 2022 (No. of visitors)	1H 2021 (No. of visitors)	Variance (No. of visitors)	Variance (%)
Mainland China	81.5%	61,957	24,263	37,694	155.4%
South & Southeast Asia	5.3%	4,058	3,538	520	14.7%
North Asia	0.9%	667	218	449	206.0%
Taiwan	2.1%	1,564	1,261	303	24.0%
Europe, Africa & the Middle East	4.3%	3,237	2,983	254	8.5%
The Americas	3.4%	2,581	805	1,776	220.6%
Australia, New Zealand & South Pacific	0.7%	563	213	350	164.3%
Macau SAR/Not identified	1.8%	1,377	468	909	194.2%
Total	100%	76,004	33,749	42,255	125.2%
Overnight visitors included in above	96.6%	73,387	33,236	40,151	120.8%

Due to the outburst of the 5th wave of the pandemic in Hong Kong early this year, travel restrictions and quarantine measures were tightened and many international flights were banned. It was only in the second quarter that these restrictive measures were gradually relaxed and overseas visitors permitted to enter Hong Kong from May 2022.

Under this environment, there were only about 76,000 visitors to Hong Kong in the first half of 2022, of which approximately 62,000 were visitors from Mainland China. Although these numbers represented an increase of 125.2% and 155.4% year-on-year, respectively, the sharp increases in percentage terms merely reflect the very low comparative base in 2021.

Arrivals from short-haul markets comprising other Asian regions (including North Asia, South & Southeast Asia, Taiwan and Macau SAR), recorded an increase of 39.8%, aggregating to 7,666 and representing 10.1% of the total visitor arrivals to Hong Kong.

Similarly, visitors from long-haul markets also recorded a growth. Visitor arrivals increased by 59.5%, with total arrivals aggregating to 6,381. Visitors from the Americas recorded an increase of 220.6%, and, thereby, taking up 3.4% of total visitors. Arrivals from the Europe, Africa and the Middle East markets also recorded an increase of 8.5%, with the visitor numbers reaching approximately 3,237 or 4.3% of total arrivals.

¹ Source: Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Jun 2022", July 2022; "Visitor Arrival Statistics – Jun 2021", July 2021; the REIT Manager.

During the period, overnight staying visitors amounted to about 73,387, representing 96.6% of total arrivals, with an increase of 120.8% as compared to the same period last year.

In terms of absolute numbers, the number of total visitor arrivals in the first half of 2022 only accounted for a minute fraction of the pre-pandemic levels.

Similar to other international gateway cities, in-bound visitor numbers used to drive the core lodging demand for the local hotel industry in all the previous years, however, it did not bear any significant relevance for the period under review due to the distortion caused by the pandemic.

Review of Hotel Rooms Supply in Hong Kong

During the first quarter of 2022, the hotel room supply in Hong Kong reported an increase of 354 units, reflecting a mild growth of 0.4% from 88,614 to 88,968 rooms. During the period, the number of hotel properties maintained at 319 without any change. By the end of 2022, it is estimated that the hotel room supply will reach 89,300 (FY2021: 88,614 units), for an anticipated growth of around 0.8% 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 2022 versus 1H 2021) ³					
	Room Occupancy Rates		Average Room Rates		RevPAR	
	1H 2022	1H 2021	1H 2022	1H 2021	1H 2022	1H 2021
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	54	36	1,643	1,439	887	518
High Tariff B	69	55	793	614	547	338
Medium Tariff	63	70	673	458	424	321
All Hotels	63	56	1,036	837	653	469

During the first half of 2022, though there was an increase in the number of visitor arrivals, quarantine customers, local long stay and staycation customers were able to support the room demand. The overall hotel occupancy rate improved to 63.0%, which was up by 7.0 percentage points year-on-year, while the industry-wide average room rate also improved by 23.8% to HK\$1,036 per night. Both factors contributed to an increase to the hotel industry's RevPAR by about HK\$184 or improved by 39.2% year-on-year.

2 Source: Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Mar 2022", June 2022; the REIT Manager.

3 Source: Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Jun 2022", July 2022; the REIT Manager.

Performance Highlights of Regal REIT

Regal REIT currently has an aggregate of 4,918 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.

With the COVID-19 pandemic continuing, international traffic remained at low levels during the period owing to travel bans and local quarantine restrictions imposed by the Hong Kong Government. During the Interim Period, the nine hotel properties of Regal REIT continued to operate under two different business modes. Specifically, five of our hotels, namely, the Regal Airport Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel were operating as quarantine hotels or facilities under the various quarantine or isolation schemes organised by the Hong Kong Government, while the remaining four hotels, namely, Regal Hongkong Hotel, Regal Riverside Hotel, iclub Wan Chai Hotel and iclub Sheung Wan Hotel, continued to operate normal hotel businesses serving mostly local customers for long stay or staycation purposes.

Performance of the Initial Hotels

Total hotel revenue, gross operating profit and net property income and statistics for the combined Initial Hotels for 1H 2022 versus 1H 2021 are set out below.

	1H 2022 HK\$'million	1H 2021 HK\$'million	Variance HK\$'million	Variance %
Operating Results				
Room revenue	487.0	153.7	333.3	216.9%
Food and beverage revenue	94.7	96.5	(1.8)	(1.9%)
Other income	21.8	17.0	4.8	28.2%
Total hotel revenue	603.5	267.2	336.3	125.9%
Operating expenses	(308.0)	(259.3)	(48.7)	(18.8%)
Gross operating profit	295.5	7.9	287.6	3,640.5%
Other expenses	(23.6)	(20.8)	(2.8)	(13.5%)
Net rental income	19.1	24.6	(5.5)	(22.4%)
Net property income	291.0	11.7	279.3	2,387.2%
Statistics				
Average room rate	HK\$1,005.18	HK\$458.75	HK\$546.43	119.1%
Occupancy rate	68.8%	47.5%	21.3%	44.8%
RevPAR	HK\$691.05	HK\$217.93	HK\$473.12	217.1%
Total available rooms nights	704,633	704,633	—	—
Occupied room nights	484,432	334,731	149,701	44.7%

For the Initial Hotels, different measures and strategies were put in place in order to keep business intact under this difficult operating period where little or no international traveling occurred. Under the Designated Quarantine Hotel Scheme (the "Scheme") organised by the Hong Kong Government since December 2020, Regal Airport Hotel and Regal Oriental Hotel continued participating in this Scheme, while Regal Kowloon Hotel also joined in the latter part of the Interim Period. The three quarantine hotels also benefited from the ad hoc requirements and subsidies from the Hong Kong Government to temporarily shift to Community Isolation Facility during the acute period of the fifth wave pandemic striking Hong Kong in the early part this year.

Combined with the normal hotel operations of Regal Hongkong Hotel and Regal Riverside Hotel, total hotel revenue for the Initial Hotels recorded a satisfactory combined result of HK\$603.5 million, as compared to the HK\$267.2 million for the same period last year, posting an increase of HK\$336.3 million or 125.9%. Gross operating profit surged to HK\$295.5 million as compared to the mere HK\$7.9 million for the same period last year. As a result, the NPI was HK\$291.0 million, representing an increase of HK\$279.3 million or an increase of almost 24 times over the same period last year.

For the period under review, the average occupancy of the Initial Hotels attained a combined 68.8% (1H2021: 47.5%). The average room rate recorded an increase of 119.1% to HK\$1,005.18 (1H2021: HK\$458.75). As a result, the RevPAR of the Initial Hotels was HK\$691.05 (1H2021: HK\$217.93), representing an increase of 217.1% year-on-year.

Base Rent

According to the IH Market Rental Package for 2022, the prevailing aggregate base rent for 2022 was HK\$475.0 million. Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis. During the Interim Period, Regal REIT received aggregate Base Rent of HK\$237.5 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 above the pro-rated base rent of HK\$237.5 million, variable rent of HK\$26.8 million was earned, which will be subject to adjustment based on their aggregate NPI achieved for the whole year.

Performance of iclub Wan Chai Hotel

During the period under review, the average occupancy rate of iclub Wan Chai Hotel was 88.9% with an average room rate of HK\$488.01 or an increase of 25.4% from the HK\$389.10 as reported in the same period last year.

For the six months ended 30th June, 2022, iclub Wan Chai Hotel - hotel portion contributed gross hotel revenue of HK\$7.8 million and incurred operating costs and expenses amounting to HK\$5.5 million. For the non-hotel portions comprising retail and commercial premises, rental income of HK\$3.3 million was generated under the leases for the period under review.

Performance of iclub Sheung Wan Hotel

During the Interim Period, the iclub Sheung Wan Hotel achieved an overall occupancy rate of 80.9%, while the average daily room rate of approximately HK\$463.88 represented an increase of 22.2% over the same period last year.

Base Rent

According to the SW Market Rental Package for 2022, Regal REIT received Base Rent in the form of cash on a monthly basis and in the Interim Period thereby earned and received HK\$13.5 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, as the NPI from hotel operations of the iclub Sheung Wan Hotel was only HK\$7.5 million and, therefore, no Variable Rent was earned.

Performance of iclub Fortress Hill Hotel

During the Interim Period, the iclub Fortress Hill Hotel, benefited by participating in the Scheme, achieved an occupancy rate of 80.3% with an average daily room rate of approximately HK\$1,248.13, an increase of HK\$955.42 or 326.4% over the same period last year.

Base Rent

According to the FH Market Rental Package for 2022, Regal REIT received Base Rent in the form of cash on a monthly basis and in the Interim Period, thereby earned and received HK\$13.5 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\$41.1 million. Therefore, Regal REIT is entitled to a Variable Rent of HK\$13.8 million, which will likewise be subject to adjustment on a full year basis.

Performance of iclub Ma Tau Wai Hotel

The iclub Ma Tau Wai Hotel commenced hotel operations in May 2017. 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, 2022, 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\$34.0 million were recorded based on the escalating fixed rental amounts for the first five years.

Net Rental and Hotel Income

An analysis of the net rental and hotel income for the Interim Period compared to the corresponding period in 2021 is set out below.

	Six months ended 30th June, 2022		Six months ended 30th June, 2021	
	HK\$'million	%	HK\$'million	%
Initial Hotels				
Base Rent	237.5	68.3	230.0	78.0
Variable Rent	26.8	7.7	—	—
Other income	1.1	0.3	1.0	0.3
iclub Sheung Wan Hotel				
Rental income	13.5	3.9	13.0	4.4
iclub Fortress Hill Hotel				
Rental income	27.3	7.9	13.0	4.4
iclub Ma Tau Wai Hotel				
Rental income	30.3	8.7	30.3	10.3
iclub Wan Chai Hotel				
Gross hotel revenue	7.8	2.2	5.3	1.8
Rental income	3.3	1.0	2.4	0.8
Gross rental and hotel income	347.6	100.0	295.0	100.0
Property operating expenses	(1.7)	(0.5)	(1.6)	(0.5)
Hotel operating expenses	(5.5)	(1.6)	(5.4)	(1.9)
Net rental and hotel income	340.4	97.9	288.0	97.6

During the Interim Period, net rental and hotel income represented 97.9% of the gross rental and hotel income after the deduction of property and hotel operating expenses. The management services of the hotel properties are provided 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, 2022, net assets attributable to Unitholders amounted to HK\$12,643.1 million (31st December, 2021: HK\$12,146.9 million), representing net asset value (“NAV”) per Unit attributable to Unitholders of HK\$3.881, which was above the NAV of HK\$3.729 per Unit as at 31st December, 2021, mainly due to the increase in the fair value of the property portfolio.

Valuation of the Property Portfolio

As at 30th June, 2022, Regal REIT’s overall property portfolio was valued at HK\$23,190.0 million (31st December, 2021: HK\$22,724.0 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, 2022 and 31st December, 2021 are tabulated below.

Property	Location	30 Jun 2022 Valuation HK\$ million	31 Dec 2021 Valuation HK\$ million	% Change
<i>Initial Hotels:</i>				
Regal Airport Hotel	Lantau Island	1,860	1,970	-5.6%
Regal Hongkong Hotel	HK Island	4,160	4,040	3.0%
Regal Kowloon Hotel	Kowloon	5,714	5,480	4.3%
Regal Oriental Hotel	Kowloon	1,760	1,700	3.5%
Regal Riverside Hotel	New Territories	4,700	4,660	0.9%
		18,194	17,850	1.9%
<i>iclub Hotels:</i>				
iclub Wan Chai Hotel	HK Island	786	767	2.5%
iclub Sheung Wan Hotel	HK Island	1,434	1,416	1.3%
iclub Fortress Hill Hotel	HK Island	1,486	1,441	3.1%
iclub Ma Tau Wai Hotel	Kowloon	1,290	1,250	3.2%
Overall property portfolio		23,190	22,724	2.1%

The valuations of the property portfolio as at 30th June, 2022 were conducted by Colliers International (Hong Kong) Limited (“Colliers”), the principal valuer of Regal REIT appointed by the Trustee for a term of three years commencing from December 2021 pursuant to the provisions of the Code on Real Estate Investment Trusts (the “REIT Code”).

Colliers, 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 (2020 Edition)”, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the REIT Code. Colliers 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 its 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\$183.1 million, representing an entitlement of approximate by HK\$0.056 per Unit.

Interim Distribution for 2022

The Board of Directors of the REIT Manager has resolved to declare an interim distribution of HK\$0.051 per Unit for the Interim Period. The interim distribution will be payable to Unitholders on the Register of Unitholders on 16th September, 2022.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Tuesday, 13th September, 2022 to Friday, 16th September, 2022, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the interim distribution for 2022, 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 Friday, 9th September, 2022. The relevant distribution warrants are expected to be despatched on or about 28th September, 2022.

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.

Loan Financing

As at 30th June, 2022, Regal REIT's loan facilities aggregating HK\$10,470.0 million, with varying maturity terms, were comprised of: (a) term and revolving loan facilities of up to HK\$5,000.0 million secured by four of the five Initial Hotels; (b) a term loan facility of HK\$2,950.0 million secured by Regal Kowloon Hotel; (c) a term loan facility of HK\$405.0 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\$704.0 million secured by the iclub Fortress Hill Hotel; and (f) a term loan facility of HK\$621.0 million secured by the iclub Ma Tau Wai Hotel.

Financing for the Initial Hotels

The facility agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$500.0 million (the “2021 IH Facilities”), concluded on 10th August, 2021 through Regal REIT’s wholly-owned subsidiaries, were secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. The 2021 IH Facilities have a term of five years and carry interest based on Hong Kong Interbank Offered Rate (HIBOR). As at 30th June, 2022, the 2021 IH Facilities had an outstanding amount of HK\$4,643.0 million, representing the full amount of the term loan facility and an amount of HK\$143.0 million under the revolving loan facility.

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. This facility bore HIBOR-based interest and had a term of five years to March 2023. In late June 2022, Regal REIT concluded a 5-year term loan facility of HK\$2,950.0 million (the “2022 RKH Facility”) with a new lender, similarly secured by the Regal Kowloon Hotel, which was used to refinance the then outstanding term loan facility of HK\$3,000.0 million originally to mature in March 2023. The 2022 RKH Facility carries interest based on HIBOR. As at 30th June, 2022, the outstanding amount of the 2022 RKH Facility was HK\$2,950.0 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 “2019 WC Facility”), with a term of five years to July 2024, was entered into by a wholly-owned subsidiary of Regal REIT on 19th July, 2019. The 2019 WC Facility was secured by the iclub Wan Chai Hotel and bears HIBOR-based interest throughout its term and its principal amount was revised to HK\$405.0 million on 22nd June, 2020 for compliance with an undertaking in the facility agreement. As at 30th June, 2022, the outstanding facility amount of the 2019 WC Facility was HK\$405.0 million.

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 HIBOR-based interest with a five year term to October 2023. As at 30th June, 2022, the utilised amount of the 2018 SW Facilities was HK\$790.0 million, representing the full amount of the term loan facility and a revolving loan amount of HK\$158.0 million.

Financing for iclub Fortress Hill Hotel

On 29th November, 2018, 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 (subsequently reduced to HK\$44.0 million in September 2020), secured by the iclub Fortress Hill Hotel (the “2018 FH Facilities”). The 2018 FH Facilities bear HIBOR-based interest and have a term of five years to November 2023. As at 30th June, 2022, 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 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 September 2020 and bearing HIBOR-based interest. On 27th August, 2020, a supplement to the 2017 MTW Facility agreement was entered into to amend the principal loan amount to HK\$621.0 million for a new term of three years to September 2023 (the “2020 MTW Facility”). As at 30th June, 2022, the outstanding amount of the 2020 MTW Facility was HK\$621.0 million, representing the full amount of the term loan facility.

Managing Fluctuations in Interest Rates

During the Interim Period, the HIBOR was on an upward trend with the 1-month HIBOR rate fluctuating within a range of around 0.128% per annum to around 0.903% per annum⁴ and it was at 0.871% per annum as of 30th June, 2022. During the Interim Period, the interest cost components in respect of all the loan facilities of Regal REIT are subject to floating HIBOR-based interest rates. The REIT Manager will continue to monitor the interest rate trends and to assess any needs to contain or hedge the exposure of the floating interest rate against rate hikes.

Gearing and Cash

As at 30th June, 2022, the gearing ratio of Regal REIT was 43.0% (30th June, 2021: 44.8%), being the gross amount of the outstanding loans aggregating HK\$10,069.0 million, which takes into account: (a) the 2021 IH Facilities of HK\$4,643.0 million; (b) the 2022 RKH Facility of HK\$2,950.0 million; (c) the 2019 WC Facility of HK\$405.0 million; (d) the 2018 SW Facilities of HK\$790.0 million; (e) the 2018 FH Facilities of HK\$660.0 million; and (f) the 2020 MTW Facility of HK\$621.0 million, as compared to the total gross assets of Regal REIT of HK\$23,418.6 million. The gearing ratio is below the maximum 50% permitted under the REIT Code.

As at 30th June, 2022, Regal REIT had a total of HK\$51.8 million in unrestricted and HK\$107.5 million in restricted cash balances and bank deposits, and unutilised revolving loan facilities of HK\$401.0 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, 2022, all nine Regal REIT’s properties with an aggregate carrying value of HK\$23,190.0 million were pledged to secure bank loan facilities granted to Regal REIT.

⁴ Hong Kong Dollar HIBOR Fixings 1-Month: Bloomberg 2022.01.01 to 2022.06.30.

PUBLIC FLOAT

As at 30th June, 2022, 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, 2022.

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 buy-backs, 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) and any real estate other than Non-qualified Minority-owned Properties (as defined in the REIT Code), including in all Qualified Minority-owned Properties (as defined in the REIT Code), during the Interim Period.

CORPORATE GOVERNANCE

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") (as may be amended from time to time) which sets out the key processes, internal control and systems and policies and procedures to guide operations and, thereby, set a high standard of corporate governance to ensure the 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 and, where applicable, the code provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

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 and Mr. Simon Lam Man Lim 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 corporate 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. The Board has established three Board Committees with terms of reference, each of which is to assist the Board in supervising specific issues and functions of Regal REIT and the REIT Manager, and to report back to the Board their findings, decisions and recommendations.

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 DIRECTOR

Subsequent to publication of the 2021 annual report of Regal REIT, the REIT Manager was informed of the following change of a Director's information:

Name of Director	Details of changes
Mr. Abraham Shek Lai Him, GBS, JP	– Re-designated from vice chairman to the chairman of the board of directors and appointed as the chairman of corporate governance committee of Goldin Financial Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited, both with effect from 6th June, 2022.

REVIEW OF INTERIM RESULTS

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed Regal REIT's condensed consolidated financial statements for the six months ended 30th June, 2022, including the accounting principles and practices adopted by Regal REIT, 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”); and
- (ii) the Trustee and companies within the same group or otherwise “associated” with the Trustee (collectively, the “Trustee 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 expired on 31st December, 2020. On 20th December, 2019, each of the Initial Hotel – Property Companies had entered into the supplemental lease agreement with the RHIHL Lessee to extend the leases (the “Lease Extensions/Amendments”) for the Regal Airport Hotel to 27th December, 2028 and the other four Initial Hotels, namely, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel, to 31st December, 2030, (together, the “Extended Period”), with the market rental packages for the Extended Period continuing to be determined annually by a jointly appointed independent professional property valuer. As a result, the total lease term of each Initial Hotels Lease Agreement is now from 30th March, 2007 to 27th December, 2028 (for Regal Airport Hotel) and 31st December, 2030 (for the other four Initial Hotels). The above-mentioned supplemental lease agreements were approved by the independent Unitholders at the extraordinary general meeting held on 15th January, 2020. References can be made to the related announcements dated 20th December, 2019 and 15th January, 2020 and the related circular to Unitholders dated 20th December, 2019, as published by the REIT Manager for further details of the Lease Extensions/Amendments. The RHIHL Lessee is a member of the RHIHL Connected Persons Group.

During the Interim Period, the cash market rental income and other income under the Initial Hotels Lease Agreements amounted to approximately HK\$269.2 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. On 20th December, 2019, the supplemental lease guarantees in respect of each Initial Hotels were entered into with the Trustee and RHIHL to make consequential amendments in light of the Lease Extensions/Amendments, so that RHIHL’s obligation to maintain a third party guarantee will cover the Extended Period.

(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 20th December, 2019, 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 term of ten years from 1st January, 2021 to 31st December, 2030 with a non-fault based early termination provision. The Wan Chai Hotel Management Agreement was approved by the independent Unitholders at the extraordinary general meeting held on 15th January, 2020. References can be made to the related announcements dated 20th December, 2019 and 15th January, 2020 and the related circular to Unitholders dated 20th December, 2019, as published by the REIT Manager for further details of the Wan Chai Hotel Management Agreement.

During the Interim Period, total management fees under the Wan Chai Hotel Management Agreement amounted to approximately HK\$0.3 million.

(f) New 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. 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 the option granted to it to extend the lease term for another five years to 31st December, 2024. On 18th November, 2019, the iclub Sheung Wan Hotel – Property Company and the RHIHL Lessee entered into the New SW Lease Agreement for the iclub Sheung Wan Hotel to formally effect the extension of the abovementioned 5-year lease term. Save for the extension of the lease term as mentioned above, all the other terms and conditions of the New SW Lease Agreement remained the same as those in the SW Lease Agreement. Reference can be made to the related announcement dated 17th May, 2019, as published by the REIT Manager for further details of the lease extension for the iclub Sheung Wan Hotel.

During the Interim Period, the market rental income under the New SW Lease Agreement amounted to approximately HK\$13.5 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 New 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) New 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 the option granted to it to extend the lease term for another five years to 31st December, 2024. On 18th November, 2019, the iclub Fortress Hill Hotel – Property Company and the RHIHL Lessee entered into the New FH Lease Agreement for the iclub Fortress Hill Hotel to formally effect the extension of the abovementioned 5-year lease term. Save for the extension of the lease term as mentioned above, all the other terms and conditions of the New FH Lease Agreement remained the same as those in the FH Lease Agreement. Reference can be made to the related announcement dated 17th May, 2019, as published by the REIT Manager for further details of the lease extension for the iclub Fortress Hill Hotel.

During the Interim Period, the market rental income under the New FH Lease Agreement amounted to approximately HK\$27.3 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 New 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 17th January, 2020, 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 (the “Premises”), which is part of the iclub Wan Chai Hotel, for a 3-year term commencing on 20th January, 2020 (the “Tenancy Agreement”) with the inclusion of a right for the RHIHL Tenant to early terminate the tenancy after a period of six months from 20th January, 2020 by serving a two months’ prior written notice, at a rental of HK\$130,000 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. Reference can be made to the related announcement dated 20th January, 2020, as published by the REIT Manager for further details of the Tenancy Agreement.

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. On 29th December, 2021, pursuant to the terms of the MTW Lease Agreement, the iclub Ma Tau Wai Hotel – Property Company (as the Lessor) exercised the option granted to it to extend the lease term for a further term, commencing from 4th September, 2022 and expiring on 31st December, 2027 (both days inclusive). On 8th June, 2022, the iclub Ma Tau Wai Hotel – Property Company and the RHIHL Lessee entered into the supplemental deed amending the MTW Lease Agreement to formally effect the extension of the abovementioned lease term. Save for the extension of the lease term as mentioned above, all the other existing terms and conditions of the MTW Lease Agreement remain unchanged. Reference can be made to the related announcement dated 29th December, 2021, as published by the REIT Manager for further details of the lease extension for the iclub Ma Tau Wai Hotel.

During the Interim Period, the contractual cash rental receipts under the MTW Lease Agreement amounted to approximately HK\$34.0 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\$44.3 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

Both the REIT Manager and the Trustee have confirmed that, other than those banking transactions of which the members of the Trustee Connected Persons Group acted as custodian and/or agent and conducted agency transactions with Regal REIT Group, there were no corporate finance transactions or other connected party transactions 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\$1.7 million were recorded during the Interim Period for services rendered in this capacity.

CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors of the REIT Manager have reviewed 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 best interests of Unitholders as a whole.

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 SUBSTANTIAL UNITHOLDERS

As at 30th June, 2022, the interests of the Substantial 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 Substantial Unitholders	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2022 ^(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 RBVI and wholly-owned subsidiaries of CCBVI, PDBVI and RBVI, 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 RBVI and wholly-owned subsidiaries of PDBVI and RBVI, respectively.

- (iv) PHL is a listed subsidiary of CCBVI, which held an approximately 62.28% shareholding interest in PHL as at 30th June, 2022, 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 RBVI and its wholly-owned subsidiaries, respectively.
- (vii) RHIHL is a listed subsidiary of PDBVI, which held an approximately 69.25% shareholding interest in RHIHL as at 30th June, 2022, 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, 2022.

Save as disclosed herein, there were no other persons who, as at 30th June, 2022, 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, 2022, 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 Director of the REIT Manager	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2022 ⁽ⁱⁱ⁾
LO Yuk Sui	2,443,033,102 (Note i)	74.99%

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 65.96% shareholding interest as at 30th June, 2022.
- (ii) The approximate percentages were calculated based on 3,257,431,189 Units in issue as at 30th June, 2022.

Save as disclosed herein, as at 30th June, 2022, 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 Substantial Unitholders 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.

As at 30th June, 2022

	Notes	Six months ended 30th June, 2022	Six months ended 30th June, 2021	Six months ended 30th June, 2020	Six months ended 30th June, 2019	Six months ended 30th June, 2018
Net assets attributable to Unitholders (HK\$'million)		12,643.1	11,612.0	12,348.4	16,695.3	16,229.5
Net asset value per Unit attributable to Unitholders (HK\$)		3.881	3.565	3.791	5.125	4.982
The highest traded price during the period (HK\$)	1	1.52	1.78	2.01	2.52	2.47
The lowest traded price during the period (HK\$)		1.29	1.28	1.11	2.20	2.30
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		66.76%	64.10%	70.72%	57.07%	53.83%
Distribution yield per Unit	2	3.95%	2.69%	4.92%	2.81%	3.22%

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, 2022 is calculated by dividing the interim distribution per Unit of HK\$0.051 over the closing price of HK\$1.29 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 39.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30th June, 2022

	Notes	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Revenue			
Gross rental revenue	4	339,818	289,793
Gross hotel revenue	4	7,797	5,295
		347,615	295,088
Property and hotel operating expenses		(7,199)	(7,054)
Net rental and hotel income	4	340,416	288,034
Interest income		186	150
Depreciation	10	(3,998)	(3,871)
Fair value changes on investment properties	11	444,256	(213,069)
REIT Manager fees	5	(44,346)	(42,474)
Trust, professional and other expenses	6	(3,908)	(3,917)
Finance costs - excluding distribution to Unitholders	7	(85,346)	(70,984)
PROFIT/(LOSS) BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS		647,260	(46,131)
Income tax expense	8	(34,184)	(28,333)
PROFIT/(LOSS) FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		613,076	(74,464)
Finance costs - distribution to Unitholders		(133,555)	(247,565)
PROFIT/(LOSS) FOR THE PERIOD, AFTER DISTRIBUTION TO UNITHOLDERS		479,521	(322,029)
EARNINGS/(LOSS) PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	9	HK\$0.188	HK\$(0.023)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2022

	Notes	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		613,076	(74,464)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Gain on revaluation of property	10	19,925	3,840
Income tax effect	20	(3,288)	(634)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		16,637	3,206
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		16,637	3,206
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		629,713	(71,258)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2022

	Notes	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	591,000	575,000
Investment properties	11	22,599,000	22,149,000
Finance lease receivables	12	10,659	13,819
Total non-current assets		23,200,659	22,737,819
Current assets			
Accounts receivable	13	41,915	4,919
Prepayments, deposits and other receivables		7,921	6,930
Due from related companies	25(b)	1,969	1,419
Tax recoverable		443	1,182
Finance lease receivables	12	6,292	6,821
Restricted cash	14	107,539	99,233
Cash and cash equivalents	15	51,849	54,152
Total current assets		217,928	174,656
Total assets		23,418,587	22,912,475
Current liabilities			
Accounts payable	16	24,477	32,105
Deposits received		871	208
Due to related companies	25(b)	1,046	401
Other payables and accruals		39,184	25,036
Contract liabilities	17	1,159	440
Interest-bearing bank borrowings	19	350,250	248,000
Lease liabilities	18	6,292	6,821
Tax payable		37,723	18,118
Total current liabilities		461,002	331,129
Net current liabilities		(243,074)	(156,473)
Total assets less current liabilities		22,957,585	22,581,346

		30th June, 2022	31st December, 2021
	Notes	(unaudited)	(audited)
		HK\$'000	HK\$'000
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	19	9,615,647	9,744,044
Lease liabilities	18	10,659	13,819
Deposits received		2,234	2,667
Deferred tax liabilities	20	685,976	673,905
Total non-current liabilities		10,314,516	10,434,435
Total liabilities, excluding net assets attributable to Unitholders			
		10,775,518	10,765,564
Net assets attributable to Unitholders			
		12,643,069	12,146,911
Number of Units in issue			
	21	3,257,431,189	3,257,431,189
Net asset value per Unit attributable to Unitholders			
	22	HK\$3.881	HK\$3.729

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the six months ended 30th June, 2022

	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, 2022	8,432,356	15,876	160,350	3,538,329	12,146,911
Profit for the period	—	—	—	613,076	613,076
Other comprehensive income for the period:					
Gain on revaluation of property, net of tax	—	—	16,637	—	16,637
Total comprehensive income for the period, before distribution to Unitholders	—	—	16,637	613,076	629,713
Transfer of depreciation on hotel property	—	—	(775)	775	—
Finance costs - distribution to Unitholders	—	—	—	(133,555)	(133,555)
Net assets as at 30th June, 2022	<u>8,432,356</u>	<u>15,876</u>	<u>176,212</u>	<u>4,018,625</u>	<u>12,643,069</u>

For the six months ended 30th June, 2021

	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, 2021	8,432,356	15,876	128,511	3,354,117	11,930,860
Loss for the period	—	—	—	(74,464)	(74,464)
Other comprehensive income for the period:					
Gain on revaluation of property, net of tax	—	—	3,206	—	3,206
Total comprehensive loss for the period, before distribution to Unitholders	—	—	3,206	(74,464)	(71,258)
Transfer of depreciation on hotel property	—	—	(639)	639	—
Finance costs - distribution to Unitholders	—	—	—	(247,565)	(247,565)
Net assets as at 30th June, 2021	<u>8,432,356</u>	<u>15,876</u>	<u>131,078</u>	<u>3,032,727</u>	<u>11,612,037</u>

DISTRIBUTION STATEMENT

For the six months ended 30th June, 2022

	Notes	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Profit/(loss) for the period, before distribution to Unitholders		613,076	(74,464)
Adjustments:			
Difference in accounting rental income and contractual cash rental income		3,668	1,968
Amounts set aside for the furniture, fixtures and equipment reserve	(d)	(13,572)	(5,791)
Amortisation of debt establishment costs		11,390	10,571
Fair value changes on investment properties		(444,256)	213,069
Depreciation		3,998	3,871
Deferred tax charge		8,783	12,503
Distributable income for the period	(a)	183,087	161,727
Distribution per Unit	(a),(b)&(c)	HK\$0.051	HK\$0.045

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\$0.051 per Unit for the six months ended 30th June, 2022 (six months ended 30th June, 2021: HK\$0.045 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 16th September, 2022 in respect of the interim distribution for the six months ended 30th June, 2022. The interim distribution will be paid out to Unitholders on or about 28th September, 2022.
- (c) The interim distribution of HK\$0.051 per Unit for the six months ended 30th June, 2022, involving a total distribution of HK\$166.1 million, was resolved and declared by the REIT Manager on 25th August, 2022. 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, 2022.
- (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\$13.6 million (six months ended 30th June, 2021: HK\$5.8 million).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2022

	Note	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Net cash flows from operating activities		186,625	131,056
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(73)	(31)
Additions to investment properties		(5,744)	(4,069)
Principal portion of finance lease received		3,689	5,079
Increase in restricted cash		(7,586)	(180)
Increase in time deposit with an original maturity of more than three months		(3)	(13)
Net cash flows from/(used in) investing activities		(9,717)	786
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank borrowings, net of debts establishment costs		3,073,750	203,000
Repayment of bank borrowings		(3,115,000)	(294,000)
Principal portion of lease payments		(3,689)	(5,079)
Distribution paid		(133,555)	(247,565)
Increase in restricted cash		(720)	—
Net cash flows used in financing activities		(179,214)	(343,644)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(2,306)	(211,802)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		44,152	232,684
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		41,846	20,882
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	15	51,849	32,228
Non-pledged time deposit with an original maturity of more than three months	15	(10,003)	(11,346)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows		41,846	20,882

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2022

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 and restated by the first amending and restating deed dated 23rd March, 2021) 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 60, 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 Standards (“HKASs”) 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 and investment properties which have been measured at fair values. 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, 2022, the Group's current liabilities exceeded its current assets by HK\$243,074,000. The net current liabilities position was mainly due to the revolving loans that could be rolled-over on a monthly basis and a term loan portion in aggregate of HK\$350,250,000 classified under current liabilities as at the end of the reporting period. Taking into account the stable operating cash inflows to be generated from rental income and the Group's revolving loan facilities that are available for a period not less than twelve months, 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 applied in the preparation of the Group's annual consolidated financial statements for the year ended 31st December, 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the Group's annual periods beginning on or after 1st January, 2021.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts - Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21, respectively, instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1st January, 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1st January, 2021. Since there were no sales of items produced while making property, plant and equipment available for use on or after 1st January, 2021, the amendments did not have any impact on the financial position or performance of the Group.

- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1st January, 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1st January, 2022. As there were no modifications of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

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, 2022 are as follows:

	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Segment revenue			
Gross rental revenue	336,513	3,305	339,818
Gross hotel revenue	—	7,797	7,797
	<u>336,513</u>	<u>11,102</u>	<u>347,615</u>
Segment results	<u>335,097</u>	<u>5,319</u>	<u>340,416</u>
Fair value changes on investment properties	441,256	3,000	444,256
Depreciation	—	(3,998)	(3,998)
Interest income			186
REIT Manager fees			(44,346)
Trust, professional and other expenses			(3,908)
Finance costs - excluding distribution to Unitholders			<u>(85,346)</u>
Profit before tax and distribution to Unitholders			<u>647,260</u>

The operating segments of the Group for the six months ended 30th June, 2021 were as follows:

	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Segment revenue			
Gross rental revenue	287,380	2,413	289,793
Gross hotel revenue	—	5,295	5,295
Total	<u>287,380</u>	<u>7,708</u>	<u>295,088</u>
Segment results	<u>286,104</u>	<u>1,930</u>	288,034
Fair value changes on investment properties	(212,069)	(1,000)	(213,069)
Depreciation	—	(3,871)	(3,871)
Interest income			150
REIT Manager fees			(42,474)
Trust, professional and other expenses			(3,917)
Finance costs - excluding distribution to Unitholders			<u>(70,984)</u>
Loss before tax and distribution to Unitholders			<u>(46,131)</u>

Segment assets and liabilities

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

As at 30th June, 2022, the Group's segment assets, comprised of the aggregate fair values of the investment properties and property, plant and equipment in the hotel properties segment and the mixed use property segment, amounted to HK\$22,404,000,000 (31st December, 2021: HK\$21,957,000,000) and HK\$786,000,000 (31st December, 2021: HK\$767,000,000), 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, 2022		
	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Capital expenditures	<u>5,744</u>	<u>73</u>	<u>5,817</u>

	Six months ended 30th June, 2021		
	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Capital expenditures	<u>4,069</u>	<u>31</u>	<u>4,100</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, 2022, revenue of HK\$336,513,000 (six months ended 30th June, 2021: HK\$287,380,000) was derived from the lease of hotel properties to a single lessee which is a related company.

Geographical information

The Group's investment properties and property, plant and equipment 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, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Gross rental revenue			
Rental income			
Initial Hotels	(a)	264,251	230,000
iclub Wan Chai Hotel - Non-hotel portions		3,305	2,413
iclub Sheung Wan Hotel	(b)	13,500	13,000
iclub Fortress Hill Hotel	(c)	27,282	13,000
iclub Ma Tau Wai Hotel	(d)	30,332	30,332
Other income		1,148	1,048
		339,818	289,793
Property operating expenses		(1,735)	(1,596)
Net rental income		338,083	288,197
Gross hotel revenue			
Hotel operating expenses	(f)	(7,797)	5,295
		(5,464)	(5,458)
Net hotel income/(loss)		2,333	(163)
Net rental and hotel income		340,416	288,034
Revenue from contracts with customers			
Gross hotel revenue	(e)	7,797	5,295
Revenue from other sources			
Gross rental income		339,818	289,793

Notes:

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

	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Base Rent	237,500	230,000
Variable Rent	26,751	—
	<u>264,251</u>	<u>230,000</u>

Variable Rent will be subject to adjustment based on their aggregate net property income ("NPI") to be achieved for the whole year.

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

	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Base Rent	13,500	13,000
Variable Rent	—	—
	<u>13,500</u>	<u>13,000</u>

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

	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Base Rent	13,500	13,000
Variable Rent	13,782	—
	<u>27,282</u>	<u>13,000</u>

Variable Rent will be subject to adjustment based on the NPI to be achieved for the whole year.

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

	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Contractual cash rental income	34,000	32,300
Difference in accounting rental income and contractual cash rental income	(3,668)	(1,968)
	<u>30,332</u>	<u>30,332</u>

(e) Gross hotel revenue is recognised over time.

(f) Included subsidies of HK\$600,000 (six months ended 30th June, 2021: Nil) granted by the Government of the Hong Kong Special Administrative Region under the Anti-epidemic Fund during the period. There were no unfulfilled conditions relating to these grants.

5. REIT MANAGER FEES

	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Base Fees	34,055	33,805
Variable Fees	10,291	8,669
	<u>44,346</u>	<u>42,474</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 value of the deposited property 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 deposited property 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 2022 and 2021, 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 9th December, 2021.

6. TRUST, PROFESSIONAL AND OTHER EXPENSES

	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Auditor's remuneration	1,056	1,088
Legal and other professional fees	315	471
Trustee fees	1,739	1,758
Other expenses	798	600
	<u>3,908</u>	<u>3,917</u>

7. FINANCE COSTS – EXCLUDING DISTRIBUTION TO UNITHOLDERS

	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on interest-bearing bank borrowings	78,208	58,670
Amortisation of debt establishment costs	11,390	10,571
Interest expense on lease liabilities	176	112
	<u>89,774</u>	<u>69,353</u>
Others, net of compensation income	(4,428)	1,631
	<u>85,346</u>	<u>70,984</u>

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30th June, 2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Current	25,411	15,870
Overprovision in prior years	(10)	(40)
Deferred (note 20)	8,783	12,503
	<hr/>	<hr/>
Total tax charge for the period	34,184	28,333
	<hr/> <hr/>	<hr/> <hr/>

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

The calculation of the basic earnings per Unit attributable to Unitholders is based on the profit for the period before distribution to Unitholders of HK\$613,076,000 (six months ended 30th June, 2021: loss of HK\$74,464,000) and 3,257,431,189 Units in issue (six months ended 30th June, 2021: 3,257,431,189 Units). The basic earnings per Unit attributable to Unitholders for the period amounted to HK\$0.188 (six months ended 30th June, 2021: basic loss per Unit of HK\$0.023).

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, 2021: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

	Authorised investments
	Hotel properties HK\$'000
At 1st January, 2021	543,000
Additions	54
Surplus on revaluation	39,656
Depreciation provided during the year	(7,710)
	575,000
At 31st December, 2021 (audited) and 1st January, 2022	
Additions	73
Surplus on revaluation	19,925
Depreciation provided during the period	(3,998)
	591,000
At 30th June, 2022 (unaudited)	

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 a single 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 Colliers International (Hong Kong) Limited ("Colliers"), an independent property valuer and the principal valuer of Regal REIT, at HK\$591,000,000 as at 30th June, 2022 (31st December, 2021: HK\$575,000,000). A revaluation surplus of HK\$19,925,000 (31st December, 2021: HK\$39,656,000) resulting from the valuation as at 30th June, 2022 has been 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 19).

The carrying amount of the Group's property, plant and equipment would have been HK\$379,968,000 (31st December, 2021: HK\$382,965,000) 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

	Authorised investments		
	Hotel properties HK\$'000	Commercial properties HK\$'000	Total HK\$'000
At 1st January, 2021	21,644,000	185,000	21,829,000
Fair value changes	302,281	7,000	309,281
Capital expenditures for the year	10,719	—	10,719
At 31st December, 2021 (audited) and 1st January, 2022	21,957,000	192,000	22,149,000
Fair value changes	441,256	3,000	444,256
Capital expenditures for the period	5,744	—	5,744
At 30th June, 2022 (unaudited)	22,404,000	195,000	22,599,000

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 Colliers at HK\$22,599,000,000 as at 30th June, 2022 (31st December, 2021: HK\$22,149,000,000). The investment properties are leased to a related company and other commercial tenants under operating leases. Further details of which are included in note 18 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 19).

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

12. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Amounts receivable:				
Not later than one year	6,555	7,143	6,292	6,821
Later than one year and not later than five years	10,832	14,109	10,659	13,819
	17,387	21,252	16,951	20,640
Less: Unearned finance income	(436)	(612)		
	16,951	20,640		
Portion classified as current assets	(6,292)	(6,821)		
Non-current portion	10,659	13,819		

The effective interest rates of the finance leases of the premises as at 30th June, 2022 ranged from 1.86% to 2.29% (31st December, 2021 ranged from 1.86% to 2.45%) per annum.

No finance lease receivable is past due at the end of the reporting period.

13. ACCOUNTS RECEIVABLE

	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Difference in accounting rental income and contractual cash rental income	1,007	4,675
Variable Rent receivables	40,533	—
Other accounts receivable	375	244
	41,915	4,919

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.

14. 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.

15. CASH AND CASH EQUIVALENTS

	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Cash and bank balances	41,846	44,152
Non-pledged time deposit with an original maturity of more than three months when acquired	10,003	10,000
Cash and cash equivalents	51,849	54,152

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.

16. ACCOUNTS PAYABLE

	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Amounts due to related companies	24,203	31,811
Other accounts payable	274	294
Accounts payable	24,477	32,105

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.

17. CONTRACT LIABILITIES

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

	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Advances from customers	<u>1,159</u>	<u>440</u>

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

18. LEASES

The Group as a lessee

The Group has lease contracts for various premises used in its operations. Leases of premises generally have lease terms between 1 and 12 years.

(a) Lease liabilities

The carrying amount of lease liabilities and the movements during the period/year are as follows:

	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Carrying amount at 1st January	20,640	11,802
Additions	—	18,971
Accretion of interest recognised during the period/year	176	250
Payments	(3,865)	(10,383)
Carrying amount at 30th June/31st December	<u>16,951</u>	<u>20,640</u>
Analysed into:		
Current portion	6,292	6,821
Non-current portion	10,659	13,819
	<u>16,951</u>	<u>20,640</u>

(b) The amounts recognised in profit or loss in relation to leases are as follows:

	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Interest on lease liabilities	176	250
Expenses relating to short-term leases (included in property and hotel operating expenses)	130	60
Total amount recognised in profit or loss	306	310

(c) The total cash outflow for leases is HK\$3,995,000 (six months ended 30th June, 2021: HK\$5,221,000).

The Group as a lessor

The Group leases its investment properties (note 11) consisting of hotel properties, commercial properties and premises in Hong Kong under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Within one year	310,678	586,113
After one year but within two years	21,555	8,285
After two years but within three years	4,231	6,554
After three years but within four years	—	954
	336,464	601,906

19. INTEREST-BEARING BANK BORROWINGS

	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Interest-bearing bank borrowings	10,069,000	10,066,000
Debt establishment costs	(103,103)	(73,956)
	9,965,897	9,992,044
Portion classified as current liabilities	(350,250)	(248,000)
Non-current portion	9,615,647	9,744,044
Amounts repayable:		
Within one year	350,250	248,000
In the second year	1,956,693	4,898,946
In the third to fifth years, inclusive	7,658,954	4,845,098
	9,965,897	9,992,044

On 10th August, 2021, 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\$500.0 million (the "2021 IH Facilities"), for a term of five years. The 2021 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, 2022, the 2021 IH Facilities had an outstanding amount of HK\$4,643.0 million, representing the full amount of the term loan facility and an amount of HK\$143.0 million under the revolving loan facility.

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. This facility has a term of five years to March 2023. In late June 2022, Regal REIT concluded a 5-year term loan facility of HK\$2,950.0 million (the "2022 RKH Facility") with a new lender, similarly secured by the Regal Kowloon Hotel, which was used to refinance the then outstanding term loan facility of HK\$3,000.0 million originally to mature in March 2023. The 2022 RKH Facility has repayment obligations of HK\$50.0 million on each of its anniversary date to maturity. As at 30th June, 2022, the outstanding amount of the 2022 RKH Facility was HK\$2,950.0 million, representing the full amount of the term loan facility.

On 19th July, 2019, Regal REIT, through a wholly-owned subsidiary, Sonnix Limited, entered into a facility agreement for a term loan facility of HK\$440.0 million (the "2019 WC Facility"), for a term of five years to July 2024. The 2019 WC Facility is secured by the iclub Wan Chai Hotel. On 22nd June, 2020, its principal amount was revised to HK\$405.0 million for compliance with an undertaking in the facility agreement. As at 30th June, 2022, the outstanding facility amount of the 2019 WC Facility was HK\$405.0 million.

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, 2022, the utilised amount of the 2018 SW Facilities was HK\$790.0 million, representing the full amount of the term loan facility and a revolving loan amount of HK\$158.0 million.

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 (subsequently reduced to HK\$44.0 million in September 2020) (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, 2022, 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. On 27th August, 2020, a supplement to the 2017 MTW Facility agreement was entered into to amend the principal loan amount to HK\$621.0 million (the “2020 MTW Facility”), for a new term of three years to September 2023. As at 30th June, 2022, the outstanding amount of the 2020 MTW Facility was HK\$621.0 million, representing the full amount of the term loan facility.

As at 30th June, 2022, the outstanding loan facilities bore interest at the Hong Kong Interbank Offered Rate plus an interest margin ranging from 1.05% per annum to 1.80% per annum (31st December, 2021: ranging from 0.92% per annum to 1.80% per annum).

Bank borrowings under the 2021 IH Facilities, the 2022 RKH Facility, the 2019 WC Facility, the 2018 SW Facilities, the 2018 FH Facilities and the 2020 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.

20. 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, 2021	(25,395)	(626,168)	8,519	(643,044)
Deferred tax charged to other comprehensive income during the year	(6,543)	—	—	(6,543)
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year	252	(24,060)	(510)	(24,318)
Gross deferred tax assets/(liabilities) at 31st December, 2021 (audited)	<u>(31,686)</u>	<u>(650,228)</u>	<u>8,009</u>	<u>(673,905)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2022	(31,686)	(650,228)	8,009	(673,905)
Deferred tax charged to other comprehensive income during the period	(3,288)	—	—	(3,288)
Deferred tax credited/(charged) to the condensed consolidated statement of profit or loss during the period (note 8)	<u>153</u>	<u>(9,243)</u>	<u>307</u>	<u>(8,783)</u>
Gross deferred tax assets/(liabilities) at 30th June, 2022 (unaudited)	<u>(34,821)</u>	<u>(659,471)</u>	<u>8,316</u>	<u>(685,976)</u>

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

21. NUMBER OF UNITS IN ISSUE

	Number of Units	
	30th June, 2022 (unaudited)	31st December, 2021 (audited)
At beginning and end of the period/year	<u>3,257,431,189</u>	<u>3,257,431,189</u>

22. 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, 2022 of HK\$12,643,069,000 (31st December, 2021: HK\$12,146,911,000) by the number of Units in issue of 3,257,431,189 (31st December, 2021: 3,257,431,189) as at that date.

23. 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
At 1st January, 2021	11,802	10,048,720
Changes from financing cash flows	(10,133)	(78,500)
Non-cash change:		
Additions	18,971	—
Amortisation of debt establishment costs	—	21,824
	<u>20,640</u>	<u>9,992,044</u>
At 31st December, 2021 (audited) and at 1st January, 2022	(3,689)	(37,537)
Changes from financing cash flows		
Non-cash change:		
Amortisation of debt establishment costs	—	11,390
	<u>16,951</u>	<u>9,965,897</u>
At 30th June, 2022 (unaudited)		

24. COMMITMENTS

The Group had the following capital commitments in respect of its properties at the end of the reporting period:

	30th June, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Authorised and contracted for	2	—
Authorised, but not contracted for	70,063	76,000
	70,065	76,000

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")	Substantial Unitholder 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

(a) Transactions with connected/related parties:

	Notes	Six months ended 30th June, 2022 (unaudited) HK\$'000	Six months ended 30th June, 2021 (unaudited) HK\$'000
Contractual rental income received/receivable from the RHIHL Group	(i)	344,029	294,540
Rental income received/receivable from the RHIHL Group	(ii)	866	866
Hotel management fees charged by the RHIHL Group	(iii)	(291)	(106)
Marketing fees charged by the RHIHL Group	(iv)	(84)	(53)
Building management fees charged by the PHL Group	(v)	(316)	(316)
REIT Manager fees	(vi)	(44,346)	(42,474)
Trustee fees	(vii)	(1,739)	(1,758)
Meeting fees charged by the RHIHL Group	(viii)	(171)	—

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 the deposited property of Regal REIT as at the end of the reporting period subject to a minimum of HK\$66,000 per month.
- (viii) The meeting fees were charged at mutually agreed amounts.

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, 2022 (unaudited) HK\$'000	31st December, 2021 (audited) HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables	(i)	40,533	—
Accounts payable to related companies	(ii)	(24,203)	(31,811)
Deposit received	(iv)	(433)	(433)
Amounts due from related companies	(ii)	1,969	1,419
Amounts due to related companies	(ii)	(1,046)	(401)
Net amounts due from the PHL Group:			
Deposits paid	(ii)	1,212	1,212
Net amounts due to:			
The Trustee	(iii)	(885)	(927)
Restricted and non-restricted bank balances with the Deutsche Bank Group			
	(v)	<u>154</u>	<u>154</u>

Notes:

- (i) Details of the balances are set out in note 13 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 2022, the RHIHL Group provided third party guarantee as security deposit for an amount of HK\$118.75 million (2021: HK\$115.0 million), which is equivalent to three-month Base Rent for the year 2022, issued by a licensed bank in Hong Kong.
- (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 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.

- (f) 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.
- (g) 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.
- (h) On 20th December, 2019, 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, 2021.

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 to their fair values at the end of the reporting period.



**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 34 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, 2022, 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

27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

25th August, 2022

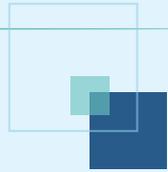
SUMMARY OF PROPERTY PORTFOLIO

As at 30th June, 2022

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, 2022

	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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