



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)

Managed by



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

2018

INTERIM REPORT







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### MANAGER OF REGAL REIT

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### BOARD OF DIRECTORS OF THE REIT MANAGER

#### *Non-executive Directors*

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

#### *Executive Directors*

Johnny Chen Sing Hung  
Simon Lam Man Lim

#### *Independent Non-executive Directors*

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

### AUDIT COMMITTEE OF THE REIT MANAGER

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

### DISCLOSURE COMMITTEE OF THE REIT MANAGER

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

### RESPONSIBLE OFFICERS OF THE REIT MANAGER

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

### SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

### TRUSTEE OF REGAL REIT

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

### AUDITOR

Ernst & Young

### PRINCIPAL VALUER

Colliers International (Hong Kong) Limited

### PRINCIPAL BANKERS

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

### LEGAL ADVISER

Baker & McKenzie

### UNIT REGISTRAR

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor,  
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183 Queen's Road East,  
Wan Chai,  
Hong Kong.

### 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 2018 Interim Report of Regal Real Estate Investment Trust.

## FINANCIAL RESULTS

For the Interim Period ended 30th June, 2018, Regal REIT achieved an unaudited consolidated profit before distribution to Unitholders of HK\$942.9 million, as compared to HK\$1,767.5 million reported for the corresponding period in 2017. Based on the market valuations appraised by the principal valuer of Regal REIT as of 30th June, 2018, the fair value of Regal REIT's investment property portfolio has increased by HK\$716.0 million over its last appraised value as of 31st December, 2017. This fair value gain has been reflected in the results for the Interim Period, while for the comparative period last year, a fair value gain of HK\$1,543.7 million was recorded. If these fair value changes are excluded, the core operating profit before distributions to Unitholders for the Interim Period would amount to HK\$226.9 million, slightly above the HK\$223.8 million for the same period in 2017.

Total distributable income for the Interim Period, after adjusting for various non-cash and other adjustments, amounted to HK\$241.7 million (equivalent to approximately HK\$0.0742 per Unit), approximately the same level as the HK\$242.7 million (equivalent to approximately HK\$0.0745 per Unit) attained for the comparative period in 2017.

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\$0.074 per Unit for the six months ended 30th June, 2018, maintaining the same interim distribution as in 2017, which represents a distribution ratio of approximately 99.7% for the Interim Period.

## HOTEL MARKET AND BUSINESS REVIEW

Based on recent research by the World Bank Group, global growth has eased but is still projected to reach 3.1 percent in 2018. During the period under review, China's economy expanded by 6.8 percent over the same period in 2017, amid efforts to control property prices, deleverage debt levels and contain financial risks. Following the robust growth attained in 2017, Hong Kong's economy continued to grow steadily in the first six months of 2018 and recorded strong performance across a number of economic sectors. During this period, the Gross Domestic Product (GDP) in real terms of Hong Kong increased by 4.0% year-on-year.

For the period under review, total visitors to Hong Kong amounted to approximately 30.6 million, representing an increase of 10.1% year-on-year, of which 23.7 million were visitors from Mainland China, an increase of 13.4% year-on-year. In the meantime, the number of visitors from the other short-haul and traditional long-haul markets on the whole remained steady. Within the total arrivals, overnight visitors accounted for approximately 13.9 million, which was an increase of 6.2% on a year-on-year basis.

According to 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 increased from 87% in 2017 to 91% in 2018, while the average achieved room rate improved by 8.1%, resulting in an increase in the Revenue per Available Room (RevPAR) of 13.0% year-on-year.



The combined average occupancy of the five Initial Hotels in Hong Kong, which operate as full-service hotels under the “Regal” brand name, during the Interim Period was 86.7%, up by 0.7 percentage point from 86.0% in the same period last year, while their combined average room rate has markedly increased by 10.5%, thereby achieving an overall enhancement of 11.4% in their combined average RevPAR. Aggregate net property income for the Initial Hotels for the Interim Period amounted to HK\$406.8 million, which represented an increase of 10.4% over the HK\$368.6 million for the same period in 2017.

The prevailing aggregate base rent for 2018 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\$751.0 million. As the aggregate net property income of these five hotels for the Interim Period was above the pro-rated base rent of HK\$375.5 million, variable rent of HK\$15.7 million was earned.

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

The iclub Wan Chai Hotel was the first iclub hotel in Hong Kong and has been self-operated by Regal REIT since 2011. During the Interim Period, it maintained an occupancy rate of 93.1%, while its average achieved room rate improved by 13.6%, reflecting an increase of 9.5% in RevPAR as compared with the first half of 2017. Aggregate net property income from this property, including the lease rentals from the non-hotel portions, amounted to HK\$11.9 million for the Interim Period, which was 13.0% above the comparative amount last year.

The other three iclub hotels, namely, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the iclub Ma Tau Wai Hotel have also been leased to the same RHIHL lessee. The prevailing base rents for 2018 for the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel, as determined by an independent professional property valuer in accordance with the terms of the leases, were HK\$42.0 million and HK\$42.4 million, respectively. During the Interim Period, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel attained a combined average occupancy rate of 88.7%, a slight drop of 0.8 percentage point from the level in the corresponding period in 2017, but their combined average room rate has substantially increased by 13.3% year-on-year, thereby translating into an improvement of 12.2% year-on-year in their combined average RevPAR. The net property income of the iclub Sheung Wan Hotel for the Interim Period was above the pro-rated base rent of HK\$21.0 million and, based on 50% sharing, variable rent of HK\$1.1 million was earned. Although the net property income for the iclub Fortress Hill Hotel for the Interim Period was below the base rent, the operating performance of this hotel has been continually improving. 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\$27.2 million.

As reported earlier, in March 2018, Regal REIT concluded a bilateral financing arrangement for a 5-year term loan in the principal amount of HK\$3.0 billion, which was principally secured by a mortgage over the Regal Kowloon Hotel. This term loan has been drawn down and principally used to fully repay the two medium term notes that were due in March and May, respectively, this year. Despite the rise in interest rates in the interbank market in Hong Kong recently, based on the interest margin under the new term loan and the prevailing Hong Kong Interbank Offered Rate (HIBOR), as compared to the coupon rates under the two medium term notes repaid, it is expected that there will be savings in Regal REIT’s future financing costs.

## BUSINESS OUTLOOK

Driven by the continuing global recovery, the relatively low interest rate environment and the buoyant property market, the economy in Hong Kong is likely to maintain a growing trend in the second half of 2018. However, the recent trade disputes between the United States and China are casting significant uncertainties on the global economy and if these international trade disputes and other geopolitical tensions escalate, they could have serious dampening effect on economic growth globally. In the overcast of these external uncertainties, the central government of China is adopting more proactive fiscal policies to speed up government spending and stimulate domestic demand, with a view to sustaining the economic growth of China within a reasonable target range.

During the Interim Period, visitors from Mainland China accounted for over 77% of the total number of visitors to Hong Kong. With the support of a steadily growing economy in China and the increasing integration of Hong Kong with the Mainland, the Directors of the REIT Manager remain optimistic of the prospects of the hospitality industry in Hong Kong. The REIT Manager will continue to pursue, with prudence, accretive investment opportunities that are considered to be appropriate for the planned expansion of Regal REIT.

**Lo Yuk Sui**

*Chairman*

**Regal Portfolio Management Limited**

(as the REIT Manager of Regal REIT)

Hong Kong, 27th August, 2018

## MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of the REIT Manager are pleased to report the unaudited interim results of Regal Real Estate Investment Trust (“Regal REIT”) and its subsidiaries (collectively, the “Group”) for the six-month period from 1st January, 2018 to 30th June, 2018 (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 activity of asset management. The REIT Manager does not manage the five Initial Hotels or the four iclub Hotels directly.

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

### THE RHIHL LESSEE AND THE HOTEL MANAGER

The Initial Hotels are leased to Favour Link International Limited (the “RHIHL Lessee”), a wholly-owned subsidiary of Regal Hotels International Holdings Limited (“RHIHL”, together with its relevant subsidiaries, collectively, the “RHIHL Group”), with lease terms to expire on 31st December, 2020 under the relevant lease agreements and supplemental lease agreements (together, the “Initial Hotels Lease Agreements”).

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 manage the Initial Hotels (the “Initial Hotels Management Agreements”) for a term of twenty years from 16th March, 2007. In December 2010, Regal REIT entered into another hotel management agreement with the Hotel Manager for the management of the hotel portion of iclub Wan Chai Hotel for a term of ten years from 1st January, 2011 to 31st December, 2020 (the “Wan Chai Hotel Management Agreement”). Since 1st January, 2011, the iclub Wan Chai Hotel has been self-operated and not leased out by Regal REIT.



On 10th February, 2014, Regal REIT acquired the iclub Sheung Wan Hotel and leased it to the RHIHL Lessee for hotel operations for the period from 10th February, 2014 to 31st December, 2019 under a lease agreement (the "SW Lease Agreement"), which is extendable at the option of Regal REIT for a further five years. 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. The Hotel Manager was 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 new iclub Ma Tau Wai Hotel and leased it to the RHIHL Lessee for hotel operations for a term of five years commencing on 4th September, 2017 under a lease agreement (the "MTW Lease Agreement"), which is extendable at the option of Regal REIT for a further term to 31st December, 2027. The Hotel Manager was appointed as the hotel manager of the iclub Ma Tau Wai Hotel under a 10-year hotel management agreement (the "MTW Hotel Management Agreement") commencing on 4th September, 2017. The new iclub Ma Tau Wai Hotel commenced business operations in May 2017.

## HOTEL PORTFOLIO

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

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

## RENTAL AND REVENUE STRUCTURE

### Initial Hotels - Rental Structure and Market Rental Packages

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

#### ***IH Market Rental Package for 2018***

An independent professional property valuer, Mr. David Faulkner, was jointly appointed in June 2017 to conduct rent reviews for the Initial Hotels for 2018. According to the determination of the IH Market Rental Package for 2018, the aggregate amount payable by the RHIHL Lessee as Base Rent was determined to be HK\$751.0 million, with Variable Rent continuing to be based on sharing 50% of the excess of the aggregate net property income ("NPI") from the operations of the Initial Hotels over the aggregate Base Rent thereof in 2018. 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\$187.75 million, which is equivalent to three months' aggregate Base Rent of the Initial Hotels for 2018. Details of the IH Market Rental Package for 2018 can be referred to in an announcement published by the REIT Manager on 4th October, 2017.

#### ***IH Market Rental Package for 2019***

The market rental review for the Initial Hotels for 2019 is to be conducted by Mr. David Faulkner, who determined the IH Market Rental Packages for 2011 through 2018, and the IH Market Rental Package for 2019 will be determined before the end of September 2018.

### iclub Wan Chai Hotel - Revenue Structure

#### ***Hotel Portion***

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

#### ***Non-hotel Portions***

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

### iclub Sheung Wan Hotel – Rental Structure and Market Rental Package

Pursuant to the SW Lease Agreement, the RHIHL Lessee is obligated to pay rentals in respect of the iclub Sheung Wan Hotel to Regal REIT for the period from 10th February, 2014 to 31st December, 2019, which is extendable at the option of Regal REIT for a further five years.

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

Market rental reviews by a jointly appointed independent professional property valuer take place for each of the remaining periods of the lease term from 10th February, 2017 to 31st December, 2017, from 1st January, 2018 to 31st December, 2018 and from 1st January, 2019 to 31st December, 2019, respectively, and any extension thereof 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 2018***

The same independent professional property valuer, Mr. David Faulkner, was jointly appointed in June 2017 to conduct a rent review for the iclub Sheung Wan Hotel for 2018. According to the determination of the SW Market Rental Package for 2018, the Base Rent payable by the RHIHL Lessee is HK\$42.0 million, with Variable Rent to be based on 50% of the excess of the NPI over the Base Rent. No FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessor.

The RHIHL Lessee has provided a third party guarantee as a security deposit for an amount of HK\$10.775 million, which is equivalent to three months' Base Rent together with rates and Government rent of the iclub Sheung Wan Hotel for 2018. Details of the SW Market Rental Package for 2018 can be referred to in an announcement published by the REIT Manager on 4th October, 2017.

#### ***SW Market Rental Package for 2019***

The market rental review for the iclub Sheung Wan Hotel for 2019 is to be conducted by Mr. David Faulkner, who determined the SW Market Rental Package for periods from 10th February, 2017 to 31st December, 2018, and the SW Market Rental Package for 2019 will be determined before the end of September 2018.

### **iclub Fortress Hill Hotel – Rental Structure and Market Rental Package**

Pursuant to the FH Lease Agreement, the RHIHL Lessee is obligated to pay rentals in respect of the iclub Fortress Hill Hotel to Regal REIT for the period from 28th July, 2014 to 31st December, 2019, which is extendable at the option of Regal REIT for a further five years.

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

Market rental reviews by a jointly appointed independent professional property valuer take place for each of the remaining periods of the lease term from 28th July, 2017 to 31st December, 2018 and from 1st January, 2019 to 31st December, 2019, respectively, and any extension thereof 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 2017/18***

The same independent professional property valuer, Mr. David Faulkner, was jointly appointed in January 2017 to conduct a rent review for the iclub Fortress Hill Hotel for the period from 28th July, 2017 to 31st December, 2018 (the "FH 2017/18 Lease Year"). According to the determination of the FH Market Rental Package for the FH 2017/18 Lease Year, the pro-rated Base Rent payable by the RHIHL Lessee for the first period of the FH 2017/18 Lease Year (from 28th July, 2017 to 31st December, 2017) was HK\$17.61 million and the Base Rent for the second period of the FH 2017/18 Lease Year (1st January, 2018 to 31st December, 2018) is HK\$42.39 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 FH 2017/18 Lease Year.



The RHIHL Lessee has provided a third party guarantee as a security deposit for the respective amounts of HK\$10.733 million (for the period from 28th July, 2017 to 31st December, 2017) and HK\$11.030 million (for the period from 1st January, 2018 to 31st December, 2018), both of which are equivalent to three months' Base Rent together with rates and Government rent of the iclub Fortress Hill Hotel for the respective two lease periods within the FH 2017/18 Lease Year. Details of the FH Market Rental Package for the FH 2017/18 Lease Year can be referred to in an announcement published by the REIT Manager on 5th May, 2017.

### ***FH Market Rental Package for 2019***

The market rental review for the iclub Fortress Hill Hotel for 2019 is to be conducted by Mr. David Faulkner, who determined the FH Market Rental Package for the periods from 28th July, 2017 to 31st December, 2018, and the FH Market Rental Package for 2019 will be determined before the end of September 2018.

### **iclub Ma Tau Wai Hotel – Rental Structure**

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

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

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

### **Furniture, Fixtures & Equipment Reserve**

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

During the Interim Period, Regal REIT contributed amounts equal to 2% of the total hotel revenue (i.e. the total of room revenue, food and beverage revenue and/or other income of the hotel properties) for each month and, as a result, HK\$21.3 million was contributed to the FF&E reserve with corresponding expenditures of HK\$16.4 million being recorded for the purposes intended.

## REVIEW OF OPERATIONS AND FINANCIAL RESULTS

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

### Hotel Industry Conditions in Hong Kong

#### Visitor Arrivals to Hong Kong, 1H 2018 versus 1H 2017<sup>1</sup>

Visitors to Hong Kong by Geographical Regions	1H 2018	Number of visitors		Variance	Variance %
	(Percentage of total visitors)	1H 2018	1H 2017		
Mainland China	77.4%	23,688,868	20,892,678	2,796,190	13.4%
South & Southeast Asia	5.8%	1,787,761	1,824,045	(36,284)	(2.0%)
North Asia	4.4%	1,348,655	1,338,324	10,331	0.8%
Taiwan	3.1%	948,759	987,099	(38,340)	(3.9%)
Europe, Africa & the Middle East	3.6%	1,105,659	1,084,886	20,773	1.9%
The Americas	3.0%	932,998	889,037	43,961	4.9%
Macau SAR/Not Identified	1.6%	458,550	461,348	(2,798)	(0.6%)
Australia, New Zealand & South Pacific	1.1%	334,789	331,466	3,323	1.0%
<b>Total</b>	<b>100.0%</b>	<b>30,606,039</b>	<b>27,808,883</b>	<b>2,797,156</b>	<b>10.1%</b>
Overnight visitors included in above	45.3%	13,856,125	13,051,876	804,249	6.2%

During the first half of 2018, the visitor arrival numbers reported an increase of approximately 2.8 million, representing a rise of 10.1% year-on-year.

Mainland China visitors increased by 13.4%, reaching approximately 23.7 million and accounting for 77.4% of the total arrivals to Hong Kong during the period.

Arrivals from short-haul markets comprising other Asian regions (including North Asia, South & Southeast Asia, Taiwan and Macau SAR), on the other hand, recorded a minor drop of 1.5%, aggregating to 4.5 million and representing 14.8% of the total visitor arrivals to Hong Kong.

Visitors from long-haul markets remained stable and achieved a small growth. Visitor arrivals increased modestly by 3.0%, with total arrivals aggregating 2.4 million. Visitors from the Americas rose with a growth of 4.9% and, thereby, taking up 3.0% of total visitors. Arrivals from the Europe, Africa and the Middle East markets remained at stable levels, with the visitor numbers reaching approximately 1.1 million or 3.6% of total arrivals.

During the period, overnight staying visitors amounted to about 13.9 million, representing 45.3% of total arrivals, with growth of 6.2% as compared to the same period last year.

<sup>1</sup> Source: Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Jun 2018", July 2018; "Visitor Arrival Statistics – Jun 2017", July 2017; the REIT Manager.

### **Review of Hotel Rooms Supply in Hong Kong**

During the first quarter of 2018, the hotel room supply in Hong Kong reported an increase by 296 units, reflecting growth of 0.4% from 78,935 to 79,231 rooms. During the period, six new hotel properties opened. The number of hotel properties increased from 277 to 283, representing an increase by 2.2%. By the end of 2018, it is projected that the hotel room supply will reach 84,888 (FY2017: 78,935 units), for an anticipated growth of around 7.5% over the previous year.<sup>2</sup>

### **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 2018 versus 1H 2017) <sup>3</sup>					
	Room Occupancy Rates		Average Room Rates		RevPAR	
	1H 2018	1H 2017	1H 2018	1H 2017	1H 2018	1H 2017
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	<b>89</b>	84	<b>2,117</b>	2,025	<b>1,884</b>	1,701
High Tariff B	<b>91</b>	88	<b>1,125</b>	1,007	<b>1,024</b>	886
Medium Tariff	<b>92</b>	88	<b>760</b>	668	<b>699</b>	588
All Hotels	<b>91</b>	87	<b>1,334</b>	1,234	<b>1,214</b>	1,074

During the first half of 2018, with the rebound in the number of overnight visitors, the overall hotel occupancy rate reached 91%, which was up by 4 percentage points year-on-year. The industry-wide average room rate, on the other hand, showed an increase of 8.1% to HK\$1,334 per night. Both factors contributed to an increase to the hotel industry's RevPAR by about HK\$140 or 13.0% year-on-year.

### **Performance Highlights of Regal REIT**

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

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

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

<sup>2</sup> Source: Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Mar 2018", May 2018; the REIT Manager.

<sup>3</sup> Source: Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Jun 2018", July 2018; the REIT Manager.



### Performance of the Initial Hotels

Total hotel revenue, gross operating profit and net property income and statistics for the combined Initial Hotels for 1H 2018 versus 1H 2017 are set out below.

	1H 2018 HK\$'million	1H 2017 HK\$'million	Variance HK\$'million	Variance %
<b>Operating Results</b>				
Room revenue	643.0	577.1	65.9	11.4%
Food and beverage revenue	314.4	327.2	(12.8)	(3.9%)
Other income	15.5	15.7	(0.2)	(1.3%)
Total hotel revenue	972.9	920.0	52.9	5.8%
Operating expenses	(553.6)	(540.3)	(13.3)	(2.5%)
Gross operating profit	419.3	379.7	39.6	10.4%
Other expenses	(34.0)	(32.2)	(1.8)	(5.6%)
Net rental income	21.5	21.1	0.4	1.9%
Net property income	406.8	368.6	38.2	10.4%
<b>Statistics</b>				
Average room rate	HK\$1,054.28	HK\$954.47	HK\$99.81	10.5%
Occupancy rate	86.7%	86.0%	0.7%	0.8%
RevPAR	HK\$914.36	HK\$820.90	HK\$93.46	11.4%
Total available room nights	703,004	703,004	—	—
Occupied room nights	609,702	604,623	5,079	0.8%

The local hotel market has experienced encouraging rebound since the fourth quarter of 2017 and the trend continued with a strong momentum in the first half of 2018. With this underlying strong fundamental, total hotel revenue of the Initial Hotels reported a year-on-year increase of HK\$52.9 million or by 5.8% to HK\$972.9 million (1H 2017: HK\$920.0 million). Gross operating profit increased HK\$39.6 million or 10.4% to HK\$419.3 million (1H 2017: HK\$379.7 million). Likewise, the NPI achieved HK\$406.8 million, representing a growth of HK\$38.2 million or 10.4% as compared with the same period last year (1H 2017: HK\$368.6 million).

For the period under review, the average occupancy rate of the Initial Hotels attained 86.7% (1H 2017: 86.0%). The average room rate recorded an increase of 10.5%, reaching HK\$1,054.28 (1H 2017: HK\$954.47). As a result, the RevPAR of the Initial Hotels was HK\$914.36 (1H 2017: HK\$820.90), representing an increase of 11.4% year-on-year.

### Base Rent

According to the IH Market Rental Package for 2018, Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis. During the Interim Period, Regal REIT earned and received aggregate Base Rent of HK\$375.5 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 HK\$406.8 million, Regal REIT is entitled to a Variable Rent of HK\$15.7 million based on 50% sharing of the excess of the aggregate NPI over the aggregate Base Rent.

### ***Performance of iclub Wan Chai Hotel***

During the period under review, the average occupancy rate of iclub Wan Chai Hotel was 93.1%. The average room rate reached HK\$1,071 or an increase of 13.6% from the approximate HK\$943 as reported in the same period last year.

For the six months ended 30th June, 2018, iclub Wan Chai Hotel - hotel portion contributed gross hotel revenue of HK\$17.9 million and incurred operating costs and expenses amounting to HK\$9.2 million. For the non-hotel portions comprising retail and commercial premises, rental income of HK\$3.6 million was generated under the leases for the period under review. As a result, the NPI generated from the property amounted to HK\$11.9 million for the Interim Period.

### ***Performance of iclub Sheung Wan Hotel***

During the Interim Period, the iclub Sheung Wan Hotel achieved an overall occupancy rate of 93.1% with an average daily room rate of approximately HK\$914 and, therefore, achieved a significant improvement over the past year.

#### **Base Rent**

According to the SW Market Rental Package for 2018, Regal REIT received Base Rent in the form of cash on a monthly basis and in the Interim Period, thereby earned and received HK\$21.0 million.

#### **Variable Rent**

Regal REIT is entitled to receive Variable Rent through the sharing of profit from the iclub Sheung Wan Hotel's operations over the Base Rent earned. During the Interim Period, the NPI from hotel operations of the iclub Sheung Wan Hotel was HK\$23.3 million, from which Regal REIT is entitled to Variable Rent of HK\$1.1 million based on 50% sharing of the excess of the NPI over the Base Rent.

### ***Performance of iclub Fortress Hill Hotel***

During the Interim Period, the iclub Fortress Hill Hotel achieved an occupancy rate of 85.4% with an average daily room rate of approximately HK\$674.

#### **Base Rent**

According to the FH Market Rental Package for the FH 2017/18 Lease Year, Regal REIT received Base Rent in the form of cash on a monthly basis. During the Interim Period, Regal REIT earned and received Base Rent of HK\$21.2 million.

#### **Variable Rent**

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

### ***Performance of iclub Ma Tau Wai Hotel***

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

For the period ended 30th June, 2018, 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\$27.2 million were recorded.

## Capital Additions Projects

A total of more than 320 guestrooms and suites within the five Initial Hotels were scheduled to be taken out of operation at different times in 2018 for renovation and upgrading work under an ongoing asset enhancement programme to be phased over the second half of 2018. In addition, certain replacement projects in respect of building service installations have also been planned and are on-going in the five Initial Hotels.

## Net Rental and Hotel Income

An analysis of the net rental and hotel income for the Interim Period compared to the corresponding period in 2017 is set out below.

	Six months ended 30th June, 2018		Six months ended 30th June, 2017	
	HK\$'million	%	HK\$'million	%
Initial Hotels				
Base Rent	<b>375.5</b>	<b>76.3</b>	366.5	79.5
Variable Rent	<b>15.7</b>	<b>3.2</b>	1.1	0.2
Other income	<b>5.7</b>	<b>1.2</b>	5.7	1.2
iclub Sheung Wan Hotel				
Rental income	<b>22.1</b>	<b>4.5</b>	25.1	5.6
iclub Fortress Hill Hotel				
Rental income	<b>21.2</b>	<b>4.3</b>	42.9	9.3
iclub Ma Tau Wai Hotel				
Rental income	<b>30.3</b>	<b>6.2</b>	—	—
iclub Wan Chai Hotel				
Gross hotel revenue	<b>17.9</b>	<b>3.6</b>	16.3	3.5
Rental income	<b>3.6</b>	<b>0.7</b>	3.3	0.7
Gross rental and hotel income	<b>492.0</b>	<b>100.0</b>	460.9	100.0
Property operating expenses	<b>(6.1)</b>	<b>(1.2)</b>	(6.1)	(1.3)
Hotel operating expenses	<b>(9.2)</b>	<b>(1.9)</b>	(8.8)	(1.9)
Net rental and hotel income	<b>476.7</b>	<b>96.9</b>	446.0	96.8

During the Interim Period, net rental and hotel income represented 96.9% of the gross rental and hotel income, after the deduction of property and hotel operating expenses. The management services for the hotel properties are undertaken by the Hotel Manager under the relevant hotel management agreements with respect to the Initial Hotels, iclub Wan Chai Hotel, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel.



## Net Assets Attributable to Unitholders

As at 30th June, 2018, net assets attributable to Unitholders amounted to HK\$16,229.5 million (31st December, 2017: HK\$15,484.7 million), representing net asset value (“NAV”) per Unit attributable to Unitholders of HK\$4.982, which was above the NAV of HK\$4.754 per Unit as at 31st December, 2017 mainly due to the increase in the fair value of the property portfolio.

## Valuation of the Property Portfolio

As at 30th June, 2018, Regal REIT’s overall property portfolio was valued at HK\$26,553.0 million (31st December, 2017: HK\$25,792.0 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, 2018 and 31st December, 2017 are tabulated below.

Property	Location	30 Jun 2018 Valuation HK\$ million	31 Dec 2017 Valuation HK\$ million	% Change
<i>Initial Hotels:</i>				
Regal Airport Hotel	Lantau Island	3,550	3,700	-4.1%
Regal Hongkong Hotel	HK Island	4,410	4,220	+4.5%
Regal Kowloon Hotel	Kowloon	5,910	5,650	+4.6%
Regal Oriental Hotel	Kowloon	1,990	1,890	+5.3%
Regal Riverside Hotel	New Territories	5,030	4,800	+4.8%
		<b>20,890</b>	20,260	+3.1%
<i>iclub Hotels:</i>				
iclub Wan Chai Hotel	HK Island	913	877	+4.1%
iclub Sheung Wan Hotel	HK Island	1,590	1,560	+1.9%
iclub Fortress Hill Hotel	HK Island	1,680	1,625	+3.4%
iclub Ma Tau Wai Hotel	Kowloon	1,480	1,470	+0.7%
<b>Overall property portfolio</b>		<b>26,553</b>	<b>25,792</b>	<b>+3.0%</b>

The valuations of the property portfolio as at 30th June, 2018 were conducted by Colliers International (Hong Kong) Limited (“Colliers”), the principal valuer of Regal REIT appointed by the Trustee with a term of three years commencing in December 2015 pursuant to the provisions of the Code on Real Estate Investment Trusts (the “REIT Code”).

Colliers, an independent professional property valuer, assessed the market values of the property portfolio subject to the lease agreements, hotel operations and the hotel management agreements and in accordance with “The HKIS Valuation Standards (2017 Edition)”, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the REIT Code. 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 market approach was also used as a check on the valuation derived from the DCF method.

## DISTRIBUTABLE INCOME AND DISTRIBUTION POLICY

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

The unaudited distributable income for the Interim Period amounted to HK\$241.7 million, representing an entitlement of approximate HK\$0.0742 per Unit.

### Interim Distribution for 2018

The Board of Directors of the REIT Manager has resolved to declare an interim distribution of HK\$0.074 per Unit for the Interim Period. The interim distribution will be payable to Unitholders on the Register of Unitholders on 14th September, 2018.

### Closure of Register of Unitholders

The Register of Unitholders will be closed from Tuesday, 11th September, 2018 to Friday, 14th September, 2018, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the interim distribution for 2018, all Unit certificates with completed transfer forms must be lodged with Regal REIT's Unit registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Monday, 10th September, 2018. The relevant distribution warrants are expected to be despatched on or about 27th September, 2018.

## FINANCIAL REVIEW AND FINANCING STRATEGY

The REIT Manager has continued to adopt a prudent approach to ensure that the leverage ratios do not exceed thresholds prescribed under the REIT Code and the financial covenants of the relevant loan facility agreements. As at 30th June, 2018, Regal REIT had bank loan facilities of up to HK\$11,303.0 million with different maturity terms.

### Regal REIT Medium Term Note Programme, Notes Issuance and Repayment

In January 2013, Regal REIT announced the establishment and listing of a US\$1.0 billion medium term note programme (the "MTN Programme") which was intended to serve as a funding platform to finance the planned expansion of Regal REIT. Subsequently, two series of notes were issued in March 2013 and May 2013, each with a term of 5 years, at an aggregate nominal principal amount of HK\$1.95 billion, with maturities to March 2018 and May 2018, respectively. As at 30th June, 2018, no notes under the MTN Programme were outstanding as these were repaid on their respective due dates on 22nd March, 2018 and 22nd May, 2018.

### Loan Financing

As at 30th June, 2018, the Regal REIT loan facilities aggregating HK\$11,303.0 million were comprised of: (a) term and revolving loan facilities of up to HK\$5,500.0 million secured by four of the five Initial Hotels; (b) a term loan facility of HK\$3,000.0 million secured by Regal Kowloon Hotel; (c) a term loan facility of HK\$440.0 million secured by the iclub Wan Chai Hotel; (d) term and revolving loan facilities of up to HK\$790.0 million secured by the iclub Sheung Wan Hotel; (e) term and revolving loan facilities of up to HK\$825.0 million secured by the iclub Fortress Hill Hotel; and (f) a term loan facility of HK\$748.0 million secured by the iclub Ma Tau Wai Hotel.

### ***Financing for the Initial Hotels***

On 12th September, 2016, Regal REIT, through wholly-owned subsidiaries, entered into a facility agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$1,000.0 million (the “2016 IH Facilities”), for a term of five years to September 2021. The 2016 IH Facilities are secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. The 2016 IH Facilities carry Hong Kong Interbank Offered Rate (HIBOR)-based interest margin. As at 30th June, 2018, the 2016 IH Facilities had an outstanding term loan facility of HK\$4,500.0 million and the full amount of the revolving loan facility was un-utilised.

On 8th March, 2018, Regal REIT, through a wholly-owned subsidiary, arranged a new bilateral term loan facility of HK\$3,000.0 million (the “2018 RKH Facility”), secured by a mortgage over the Regal Kowloon Hotel. The 2018 RKH Facility was drawn down mainly for refinancing the notes under the MTN Programme that matured in March 2018 and May 2018, respectively. The 2018 RKH Facility bears a HIBOR-based interest margin and has a term of five years to March 2023. As at 30th June, 2018, the outstanding amount of the 2018 RKH Facility was HK\$3,000.0 million, representing the full amount of the term loan facility.

### ***Financing for iclub Wan Chai Hotel***

The term loan facility agreement for a principal amount of HK\$440.0 million (the “2014 WC Facility”), with a term of five years to December 2019, was entered into by a wholly-owned subsidiary of Regal REIT on 22nd December, 2014. The 2014 WC Facility is secured by the iclub Wan Chai Hotel and bears a HIBOR-based interest margin throughout its term. As at 30th June, 2018, the outstanding amount on the 2014 WC Facility was HK\$440.0 million, representing the full amount of the term loan facility.

### ***Financing for iclub Sheung Wan Hotel***

On 10th February, 2014, 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 “2014 SW Facilities”). The 2014 SW Facilities bear a HIBOR-based interest margin and have a term of five years to February 2019. As at 30th June, 2018, the utilised amount of the 2014 SW Facilities was HK\$632.0 million, representing the full amount of the term loan facility.

### ***Financing for iclub Fortress Hill Hotel***

Regal REIT, through a wholly-owned subsidiary, arranged another bilateral loan facility of up to HK\$825.0 million, comprised of a term loan facility of HK\$660.0 million and a revolving loan facility of up to HK\$165.0 million, secured by the iclub Fortress Hill Hotel (the “2014 FH Facilities”) on 28th July, 2014. The 2014 FH Facilities bear a HIBOR-based interest margin and have a term of five years to July 2019. As at 30th June, 2018, the outstanding amount of the 2014 FH Facilities was HK\$660.0 million, representing the full amount of the term loan facility.

### ***Financing for iclub Ma Tau Wai Hotel***

On 4th September, 2017, Regal REIT, through a wholly-owned subsidiary, arranged for a term loan facility of HK\$748.0 million, secured by the iclub Ma Tau Wai Hotel (the “2017 MTW Facility”) with a term of three years to 2020 and bearing a HIBOR-based interest margin. As at 30th June, 2018, the outstanding amount of the 2017 MTW Facility was HK\$748.0 million, representing the full amount of the term loan facility.

## Managing Fluctuations in Interest Rates

During the Interim Period, some changes on the interest rate environment were seen as a result of continuous U.S. interest rate hike and the interest differentials between U.S. dollars and H.K. dollars, with the actual 1-month HIBOR margin fluctuating within a range of around 0.66% per annum to 2.13% per annum<sup>4</sup>, and was at 2.01% per annum as at 30th June, 2018. As at 30th June, 2018, the interest cost components in respect of the aggregate loan facilities are all subject to floating HIBOR-based interest rates. The REIT Manager is continuously monitoring the interest rate trends and assessing any need to contain or hedge the exposure of the finance costs and any impact that may arise from interest rate hikes.

## Gearing and Cash

As at 30th June, 2018, the gearing ratio of Regal REIT was 37.2% (30th June, 2017: 35.4%), being the gross amount of the outstanding loans aggregating HK\$9,980.0 million, which takes into account: (a) the 2016 IH Facilities of HK\$4,500.0 million; (b) the 2018 RKH Facility of HK\$3,000.0 million; (c) the 2014 WC Facility of HK\$440.0 million; (d) the 2014 SW Facilities of HK\$632.0 million; (e) the 2014 FH Facilities of HK\$660.0 million; and (f) the 2017 MTW Facility of HK\$748.0 million, as compared to the total gross assets of Regal REIT of HK\$26,830.8 million. The gearing ratio is below the maximum 45% permitted under the REIT Code.

As at 30th June, 2018, Regal REIT had a total of HK\$160.5 million in unrestricted and HK\$72.7 million in restricted cash balances and bank deposits, and unutilised revolving loan facilities of HK\$1,323.0 million. Regal REIT maintains adequate cash reserves and revolving loan facilities and receives timely payments of rental income to satisfy its financial commitments as well as working capital requirements on an on-going basis.

## Pledged Assets

As at 30th June, 2018, all nine Regal REIT's properties with an aggregate carrying value of HK\$26,553.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

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<sup>4</sup> Hong Kong Dollar HIBOR Fixings 1-Month: Bloomberg 2018.01.01 to 2018.06.30.



## OTHER INFORMATION AND DISCLOSURES

### PUBLIC FLOAT

As at 30th June, 2018, 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, 2018.

### NEW UNITS ISSUED

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

### EMPLOYEES

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

### BUY-BACK, SALE OR REDEMPTION OF UNITS

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

### MATERIAL ACQUISITIONS OR DISPOSALS OF REAL ESTATE

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

### OTHER INVESTMENTS

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

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

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

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

### **AUTHORISATION STRUCTURE**

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

The REIT Manager is licensed by the SFC under the SFO to conduct regulated activities related to asset management. During the period under review, Mr. Johnny Chen Sing Hung, Mr. Simon Lam Man Lim and Mr. Wesley Chan Hiu Yeung have acted as the Responsible Officers of the REIT Manager. Mr. Wesley Chan Hiu Yeung was appointed as a Responsible Officer of the REIT Manager on 22nd January, 2018.

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

### **BOARD OF DIRECTORS OF THE REIT MANAGER**

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

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

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

## CHANGE OF INFORMATION OF DIRECTOR

Subsequent to publication of the 2017 annual report of Regal REIT, the REIT Manager was informed of the following changes of Director's information:

<b>Name of Director</b>	<b>Details of changes</b>
Hon. Abraham Shek Lai Him, GBS, JP	Appointed as an independent non-executive director and a member of the audit committee of CSI Properties Limited, a company listed on The Stock Exchange of Hong Kong Limited, with effect from 20th July, 2018.

## REVIEW OF INTERIM REPORT

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed the interim report of Regal REIT for the six-month period from 1st January, 2018 to 30th June, 2018, 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.

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

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

### RHIHL CONNECTED PERSONS GROUP

#### (a) Initial Hotels Lease Agreements

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

During the Interim Period, total contractual lease income under the Initial Hotels Lease Agreements amounted to approximately HK\$396.8 million including Base Rent, Variable Rent and other income.

#### (b) Initial Hotels Management Agreements

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

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

#### (c) Initial Hotels Lease Guarantees

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



**(d) Initial Hotels Deed of Trade Mark Licence**

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

**(e) Wan Chai Hotel Management Agreement**

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

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

**(f) SW Lease Agreement**

Regal REIT (via Tristan Limited (the “iclub Sheung Wan Hotel – Property Company”)) entered into the SW Lease Agreement in relation to the leasing of the iclub Sheung Wan Hotel with the RHIHL Lessee, a member of the RHIHL Connected Persons Group, on 10th February, 2014. On 20th February, 2018, the iclub Sheung Wan Hotel – Property Company entered into the first supplemental lease agreement in respect of iclub Sheung Wan Hotel with the RHIHL Lessee upon the request from the Lands Department of Hong Kong to vary the SW Lease Agreement to the effect that the RHIHL Lessee would release its leasehold interests in and surrender its possession of the surrendered premises (I.L. 66 S.G, M.L. 67 S.C ss.1, M.L 67 S.A ss.1 S.A, M.L. 67 S.B ss.1 S.A and M.L. 67 S.B ss.2) for road widening outside the hotel. The term of the SW Lease Agreement expires on 31st December, 2019, which is extendable at the option of Regal REIT for a further five years.

During the Interim Period, total cash rental receipts under the SW Lease Agreement amounted to approximately HK\$22.1 million.

**(g) SW Lease Guarantee**

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

**(h) SW Hotel Management Agreement**

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

**(i) FH Lease Agreement**

Regal REIT (via Wise Decade Investments Limited (the “iclub Fortress Hill Hotel – Property Company”)) entered into the FH Lease Agreement in relation to the leasing of the iclub Fortress Hill Hotel with the RHIHL Lessee, a member of the RHIHL Connected Persons Group, on 28th July, 2014. The term of the FH Lease Agreement expires on 31st December, 2019, which is extendable at the option of Regal REIT for a further five years.

During the Interim Period, total cash rental receipts under the FH Lease Agreement amounted to approximately HK\$21.2 million.

**(j) FH Lease Guarantee**

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

**(k) FH Hotel Management Agreement**

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

**(l) Tenancy Agreement**

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

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

**(m) MTW Lease Agreement**

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

During the Interim Period, total contractual cash rental income under the MTW Lease Agreement amounted to approximately HK\$27.2 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 by the RHIHL Lessee or payable 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\$53.1 million for such services rendered during the Interim Period were settled and/or are to be settled pursuant to the provisions of the Trust Deed.

### **TRUSTEE CONNECTED PERSONS GROUP**

#### **Corporate Finance Transactions**

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

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

#### **Trustee Fees**

DB Trustees (Hong Kong) Limited, a member of the Trustee Connected Persons Group, was appointed as the Trustee of Regal REIT. Trustee fees aggregating approximately HK\$1.9 million were recorded during the Interim Period for services rendered in this capacity.

## **VALUER CONNECTED PERSONS GROUP**

Colliers, a member of the Valuer Connected Persons Group, was appointed as the principal valuer of Regal REIT. During the Interim Period, an amount of approximately HK\$0.3 million in aggregate was charged for the valuation services.

## **CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS**

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

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



## DISCLOSURE OF INTERESTS

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

### HOLDINGS OF SIGNIFICANT UNITHOLDERS

As at 30th June, 2018, the interests of the Significant Unitholders (as defined in paragraph 8.1 of the REIT Code) (not being a director or chief executive of the REIT Manager) in Units, as recorded in the register (the "Register") required to be kept under the Trust Deed, were as follows:

Name of Significant Unitholders	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2018 <sup>(x)</sup>
Century City International Holdings Limited ("CCIHL")	2,443,033,102 (Note i)	74.99%
Century City BVI Holdings Limited ("CCBVI")	2,443,033,102 (Notes i & ii)	74.99%
Paliburg Holdings Limited ("PHL")	2,440,346,102 (Notes iii & iv)	74.92%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,440,346,102 (Notes iii & v)	74.92%
Regal Hotels International Holdings Limited ("RHIHL")	2,439,613,739 (Notes vi & vii)	74.89%
Regal International (BVI) Holdings Limited ("RBVI")	2,439,613,739 (Notes vi & viii)	74.89%
Complete Success Investments Limited	1,817,012,072 (Note ix)	55.78%
Great Prestige Investments Limited	373,134,326 (Note ix)	11.45%

Notes:

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

- (iv) PHL is a listed subsidiary of CCBVI, which held an approximately 62.28% shareholding interest in PHL as at 30th June, 2018, and its interests in Units are deemed to be the same interests held by CCBVI.
- (v) PDBVI is a wholly-owned subsidiary of PHL and its interests in Units are deemed to be the same interests held by PHL.
- (vi) The interests in 2,439,613,739 Units held by each of RHIHL and RBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI and Cosmopolitan, respectively.
- (vii) RHIHL is a listed subsidiary of PDBVI, which held an approximately 69.25% shareholding interest in RHIHL as at 30th June, 2018, 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, 2018.

Save as disclosed herein, there were no other persons who, as at 30th June, 2018, 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, 2018, the interests of the REIT Manager, directors and the chief executives of the REIT Manager in Units, as recorded in the Register, were as follows:

Name of the REIT Manager and Director of the REIT Manager	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2018 <sup>(iii)</sup>
LO Yuk Sui	2,443,033,102 (Note i)	74.99%
Regal Portfolio Management Limited	120,381,598 (Note ii)	3.70%

Notes:

- (i) The interests in 2,443,033,102 Units were the same parcel of Units held through CCIHL in which Mr. Lo Yuk Sui held approximately 58.67% shareholding interest as at 30th June, 2018.
- (ii) Regal Portfolio Management Limited is the Manager of Regal REIT (as defined under the REIT Code).
- (iii) The approximate percentages were calculated based on 3,257,431,189 Units in issue as at 30th June, 2018.

Save as disclosed herein, as at 30th June, 2018, none of the REIT Manager, the directors and the chief executives of the REIT Manager had any interests in Units, which are required to be recorded in the Register. Save for the interests of the Significant Unitholders, the REIT Manager and the director of the REIT Manager (also being the Connected Persons of Regal REIT) in Units as disclosed herein, the REIT Manager is not aware of any other Connected Persons of Regal REIT holding any Units.

## PERFORMANCE TABLE

As at 30th June, 2018

	Notes	Six months ended 30th June, 2018	Six months ended 30th June, 2017	Six months ended 30th June, 2016	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Net assets attributable to Unitholders (HK\$'million)		<b>16,229.5</b>	14,995.6	13,442.1	13,763.3	15,825.4
Net asset value per Unit attributable to Unitholders (HK\$)		<b>4.982</b>	4.604	4.127	4.225	4.858
The highest traded price during the period (HK\$)	1	<b>2.47</b>	2.33	2.02	2.37	2.32
The lowest traded price during the period (HK\$)		<b>2.30</b>	2.05	1.72	2.05	1.98
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		<b>53.83%</b>	55.47%	58.32%	51.48%	59.24%
Distribution yield per Unit	2	<b>3.22%</b>	3.22%	3.76%	3.29%	3.54%

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, 2018 is calculated by dividing the interim distribution per Unit of HK\$0.074 over the closing price of HK\$2.30 on the last trading day for the period. The calculation of the interim distribution per Unit is set out in the section "Distribution Statement" on page 36.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30th June, 2018

	Notes	Six months ended 30th June, 2018 (unaudited) HK\$'000	Six months ended 30th June, 2017 (unaudited) HK\$'000
<b>Revenue</b>			
Gross rental revenue	4	474,111	444,589
Gross hotel revenue	4	17,905	16,342
		<u>492,016</u>	<u>460,931</u>
Property and hotel operating expenses		<u>(15,364)</u>	<u>(14,926)</u>
Net rental and hotel income	4	476,652	446,005
Interest income		294	68
Depreciation	10	(4,574)	(4,085)
Fair value changes on investment properties	11	716,039	1,543,680
REIT Manager fees	5	(53,114)	(46,982)
Trust, professional and other expenses	6	(10,510)	(12,039)
Finance costs - excluding distribution to Unitholders	7	<u>(131,373)</u>	<u>(104,530)</u>
<b>PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS</b>		<b>993,414</b>	<b>1,822,117</b>
Income tax expense	8	<u>(50,491)</u>	<u>(54,634)</u>
<b>PROFIT FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS</b>		<b>942,923</b>	<b>1,767,483</b>
Finance costs - distribution to Unitholders		<u>(231,277)</u>	<u>(260,595)</u>
<b>PROFIT FOR THE PERIOD, AFTER DISTRIBUTION TO UNITHOLDERS</b>		<b><u>711,646</u></b>	<b><u>1,506,888</u></b>
<b>EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS</b>			
Basic and diluted	9	<u><b>HK\$0.289</b></u>	<u>HK\$0.543</u>



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2018

	Notes	Six months ended 30th June, 2018 (unaudited) HK\$'000	Six months ended 30th June, 2017 (unaudited) HK\$'000
<b>PROFIT FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS</b>		<b>942,923</b>	1,767,483
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gain on revaluation of property	10	<b>39,775</b>	60,784
Income tax effect	17	<b>(6,564)</b>	(10,029)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		<u><b>33,211</b></u>	<u>50,755</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>		<u><b>33,211</b></u>	<u>50,755</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS</b>		<u><b>976,134</b></u>	<u>1,818,238</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2018

	Notes	30th June, 2018 (unaudited) HK\$'000	31st December, 2017 (audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	10	692,000	656,000
Investment properties	11	25,861,000	25,136,000
Total non-current assets		26,553,000	25,792,000
<b>Current assets</b>			
Accounts receivable	12	23,849	41,714
Prepayments, deposits and other receivables		6,353	5,960
Due from related companies		5,444	4,599
Tax recoverable		8,915	11,640
Restricted cash	13	72,700	67,661
Cash and cash equivalents		160,522	34,731
Total current assets		277,783	166,305
<b>Total assets</b>		26,830,783	25,958,305
<b>Current liabilities</b>			
Accounts payable	14	48,096	99,449
Deposits received		1,170	965
Due to related companies		4,156	10,723
Other payables and accruals		23,533	52,381
Interest-bearing bank borrowings	15	631,031	877,000
Other borrowings	16	—	1,945,768
Tax payable		32,543	3,769
Total current liabilities		740,529	2,990,055
<b>Net current liabilities</b>		(462,746)	(2,823,750)
<b>Total assets less current liabilities</b>		26,090,254	22,968,250

		<b>30th June, 2018</b>	31st December, 2017
	<b>Notes</b>	<b>(unaudited)</b>	(audited)
		<b>HK\$'000</b>	HK\$'000
<b>Non-current liabilities, excluding net assets attributable to Unitholders</b>			
Interest-bearing bank borrowings	15	<b>9,282,195</b>	6,930,603
Deposits received		<b>2,695</b>	2,695
Deferred tax liabilities	17	<b>575,849</b>	550,294
Total non-current liabilities		<b>9,860,739</b>	7,483,592
<b>Total liabilities, excluding net assets attributable to Unitholders</b>		<b>10,601,268</b>	10,473,647
<b>Net assets attributable to Unitholders</b>		<b>16,229,515</b>	15,484,658
<b>Number of Units in issue</b>	18	<b>3,257,431,189</b>	3,257,431,189
<b>Net asset value per Unit attributable to Unitholders</b>	19	<b>HK\$4.982</b>	HK\$4.754

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the six months ended 30th June, 2018

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

For the six months ended 30th June, 2017

	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, 2017	8,432,356	15,876	150,966	4,838,746	13,437,944
Profit for the period	—	—	—	1,767,483	1,767,483
Other comprehensive income for the period:					
Gain on revaluation of property, net of tax	—	—	50,755	—	50,755
Total comprehensive income for the period, before distribution to Unitholders	—	—	50,755	1,767,483	1,818,238
Transfer of depreciation on hotel property	—	—	(842)	842	—
Finance costs - distribution to Unitholders	—	—	—	(260,595)	(260,595)
Net assets as at 30th June, 2017	<u>8,432,356</u>	<u>15,876</u>	<u>200,879</u>	<u>6,346,476</u>	<u>14,995,587</u>

## DISTRIBUTION STATEMENT

For the six months ended 30th June, 2018

	Notes	Six months ended 30th June, 2018 (unaudited) HK\$'000	Six months ended 30th June, 2017 (unaudited) HK\$'000
<b>Profit for the period, before distribution to Unitholders</b>		<b>942,923</b>	1,767,483
Adjustments:			
Difference in accounting rental income and contractual cash rental income		<b>(3,132)</b>	2,865
Amounts set aside for the furniture, fixtures and equipment reserve	(d)	<b>(21,286)</b>	(19,243)
Amortisation of debt establishment costs		<b>10,213</b>	8,202
Fair value changes on investment properties		<b>(716,039)</b>	(1,543,680)
Depreciation		<b>4,574</b>	4,085
Foreign exchange differences, net		<b>5,455</b>	7,880
Deferred tax charge		<b>18,991</b>	15,147
<b>Distributable income for the period</b>	(a)	<b>241,699</b>	242,739
<b>Distribution per Unit</b>	(a),(b)&(c)	<b>HK\$0.074</b>	HK\$0.074

Notes:

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

The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. The Directors of the REIT Manager have resolved to make an interim distribution of HK\$0.074 per Unit for the six months ended 30th June, 2018 (six months ended 30th June, 2017: HK\$0.074 per Unit).

- (b) Pursuant to the Trust Deed, the REIT Manager determines the date (the "Record Date") in respect of each distribution period for the purpose of establishing Unitholder entitlements to distributions. The Record Date has been set as 14th September, 2018 in respect of the interim distribution for the six months ended 30th June, 2018. The interim distribution will be paid out to Unitholders on or about 27th September, 2018.
- (c) The interim distribution of HK\$0.074 per Unit for the six months ended 30th June, 2018, involving a total distribution of HK\$241.0 million, was resolved and declared by the REIT Manager on 27th August, 2018. 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, 2018.
- (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\$21.3 million (six months ended 30th June, 2017: HK\$19.2 million).



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2018

	Six months ended 30th June, 2018 (unaudited) HK\$'000	Six months ended 30th June, 2017 (unaudited) HK\$'000
<b>Net cash flows from operating activities</b>	<b>228,217</b>	251,859
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of items of property, plant and equipment	(799)	(301)
Additions to investment properties	(8,961)	(15,320)
Increase in restricted cash	(5,039)	(7,850)
Increase in deposit	—	(200,000)
<b>Cash flows used in investing activities</b>	<b>(14,799)</b>	(223,471)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New bank borrowings, net of debt establishment costs	2,973,000	400,000
Repayment of bank borrowings	(877,000)	(190,000)
Repayment of other borrowings	(1,952,350)	—
Distribution paid	(231,277)	(260,595)
<b>Net cash flows used in financing activities</b>	<b>(87,627)</b>	(50,595)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>125,791</b>	(22,207)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>34,731</b>	58,515
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>160,522</b>	36,308
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	160,522	36,308

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2018*

### 1. GENERAL

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

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

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

### 2. BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

#### 2.2 Basis of preparation

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

As at 30th June, 2018, the Group's current liabilities exceeded its current assets by HK\$462,746,000. The net current liabilities position was mainly due to the outstanding loan under the 2014 SW Facilities in the principal amount of HK\$632,000,000, which has been classified under current liabilities as at the end of the reporting period. The REIT Manager has commenced a refinancing exercise with an aim to repay the 2014 SW Facilities on or before the expiry of its current term. Taking into account the current available banking facilities, the refinancing arrangement and the stable operating cash inflow from rental income, the REIT Manager considers the Group has adequate resources to meet its liabilities, commitments and funding requirements as and when they fall due within one year from the end of the reporting period. Accordingly, the REIT Manager continues to adopt the going concern basis in preparing the condensed consolidated financial statements.

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2017, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the Group's annual periods beginning on or after 1st January, 2018.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements to HKFRSs 2014-2016 Cycle</i>	<i>Amendments to HKFRS 1 and HKAS 28</i>

The adoption of the above new and revised standards has had no significant financial effect on the interim financial information.

### 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, 2018 are as follows:

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

The operating segments of the Group for the six months ended 30th June, 2017 were as follows:

	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
<b>Segment revenue</b>			
Gross rental revenue	441,277	3,312	444,589
Gross hotel revenue	—	16,342	16,342
Total	<u>441,277</u>	<u>19,654</u>	<u>460,931</u>
<b>Segment results</b>			
	<u>435,448</u>	<u>10,557</u>	446,005
Fair value changes on investment properties	1,540,680	3,000	1,543,680
Depreciation	—	(4,085)	(4,085)
Interest income			68
REIT Manager fees			(46,982)
Trust, professional and other expenses			(12,039)
Finance costs - excluding distribution to Unitholders			<u>(104,530)</u>
Profit before tax and distribution to Unitholders			<u>1,822,117</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, 2018, 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\$25,640,000,000 (31st December, 2017: HK\$24,915,000,000) and HK\$913,000,000 (31st December, 2017: HK\$877,000,000), 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, 2018		
	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Capital expenditures	<u>8,961</u>	<u>799</u>	<u>9,760</u>

  

	Six months ended 30th June, 2017		
	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Capital expenditures	<u>15,320</u>	<u>301</u>	<u>15,621</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, 2018, revenue of HK\$470,508,000 (six months ended 30th June, 2017: HK\$441,277,000) 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, 2018 (unaudited) HK\$'000	Six months ended 30th June, 2017 (unaudited) HK\$'000
<b>Gross rental revenue</b>			
Rental income			
Initial Hotels	(a)	391,156	367,573
iclub Wan Chai Hotel - Non-hotel portions		3,603	3,312
iclub Sheung Wan Hotel	(b)	22,144	25,067
iclub Fortress Hill Hotel	(c)	21,195	42,917
iclub Ma Tau Wai Hotel	(d)	30,332	—
Other income		5,681	5,720
		<u>474,111</u>	<u>444,589</u>
Property operating expenses		(6,144)	(6,125)
<b>Net rental income</b>		<u>467,967</u>	<u>438,464</u>
<b>Gross hotel revenue</b>		17,905	16,342
Hotel operating expenses		(9,220)	(8,801)
<b>Net hotel income</b>		<u>8,685</u>	<u>7,541</u>
<b>Net rental and hotel income</b>		<u><u>476,652</u></u>	<u><u>446,005</u></u>

Notes:

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

	<b>Six months ended 30th June, 2018 (unaudited) HK\$'000</b>	Six months ended 30th June, 2017 (unaudited) HK\$'000
Base Rent	<b>375,500</b>	366,500
Variable Rent	<b>15,656</b>	1,073
	<b><u>391,156</u></b>	<u>367,573</u>

(b) According to the market rental package, Regal REIT received Base Rent and Variable Rent for six months ended 30th June, 2018. An analysis of the iclub Sheung Wan Hotel rental income is as follows:

	<b>Six months ended 30th June, 2018 (unaudited) HK\$'000</b>	Six months ended 30th June, 2017 (unaudited) HK\$'000
Contractual cash rental income	—	25,474
Difference in accounting rental income and contractual cash rental income	—	(407)
Base Rent	<b>21,000</b>	—
Variable Rent	<b>1,144</b>	—
	<b><u>22,144</u></b>	<u>25,067</u>

- (c) According to the market rental package, Regal REIT received Base Rent and Variable Rent for six months ended 30th June, 2018. An analysis of the iclub Fortress Hill Hotel rental income is as follows:

	<b>Six months ended 30th June, 2018 (unaudited) HK\$'000</b>	Six months ended 30th June, 2017 (unaudited) HK\$'000
Contractual cash rental income	—	45,375
Difference in accounting rental income and contractual cash rental income	—	(2,458)
Base Rent	<b>21,195</b>	—
	<b>21,195</b>	42,917

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

	<b>Six months ended 30th June, 2018 (unaudited) HK\$'000</b>	Six months ended 30th June, 2017 (unaudited) HK\$'000
Contractual cash rental income	<b>27,200</b>	—
Difference in accounting rental income and contractual cash rental income	<b>3,132</b>	—
	<b>30,332</b>	—

## 5. REIT MANAGER FEES

	<b>Six months ended 30th June, 2018 (unaudited) HK\$'000</b>	Six months ended 30th June, 2017 (unaudited) HK\$'000
Base Fees	<b>38,618</b>	33,290
Variable Fees	<b>14,496</b>	13,692
	<b><u>53,114</u></b>	<u>46,982</u>

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

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

For the financial years 2018 and 2017, 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 1st December, 2017.



## 6. TRUST, PROFESSIONAL AND OTHER EXPENSES

	<b>Six months ended 30th June, 2018 (unaudited) HK\$'000</b>	Six months ended 30th June, 2017 (unaudited) HK\$'000
Auditor's remuneration	1,101	1,059
Legal and other professional fees	1,277	680
Trustee fees	1,931	1,720
Foreign exchange differences, net	5,455	7,880
Other expenses	746	700
	<u>10,510</u>	<u>12,039</u>

## 7. FINANCE COSTS – EXCLUDING DISTRIBUTION TO UNITHOLDERS

	<b>Six months ended 30th June, 2018 (unaudited) HK\$'000</b>	Six months ended 30th June, 2017 (unaudited) HK\$'000
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on interest-bearing bank borrowings	93,753	54,086
Interest expense on other borrowings	26,217	40,506
Amortisation of debt establishment costs	10,213	8,202
	<u>130,183</u>	<u>102,794</u>
Others	1,190	1,736
	<u>131,373</u>	<u>104,530</u>

## 8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30th June, 2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

	<b>Six months ended 30th June, 2018 (unaudited) HK\$'000</b>	Six months ended 30th June, 2017 (unaudited) HK\$'000
Current	<b>31,500</b>	39,487
Deferred (note 17)	<b>18,991</b>	15,147
Total tax charge for the period	<b>50,491</b>	54,634

## 9. EARNINGS 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\$942,923,000 (six months ended 30th June, 2017: HK\$1,767,483,000) and the weighted average of 3,257,431,189 Units (six months ended 30th June, 2017: 3,257,431,189 Units) in issue during the period. The basic earnings per Unit attributable to Unitholders for the period amounted to HK\$0.289 (six months ended 30th June, 2017: HK\$0.543).

The diluted earnings per Unit attributable to Unitholders is the same as the basic earnings per Unit attributable to Unitholders as there were no dilutive instruments in issue during the period (six months ended 30th June, 2017: Nil).

## 10. PROPERTY, PLANT AND EQUIPMENT

	<b>Hotel properties HK\$'000</b>
At 1st January, 2017	590,000
Additions	2,671
Surplus on revaluation	71,896
Depreciation provided during the year	(8,567)
	<hr/>
At 31st December, 2017 (audited) and 1st January, 2018	<b>656,000</b>
Additions	<b>799</b>
Surplus on revaluation	<b>39,775</b>
Depreciation provided during the period	<b>(4,574)</b>
	<hr/>
At 30th June, 2018 (unaudited)	<b>692,000</b>
	<hr/> <hr/>

The Group's property, plant and equipment represents the value of land and building together with furniture, fixtures and equipment of iclub Wan Chai Hotel for the hotel portion. The REIT Manager has determined that the property, plant and equipment constitute one class of asset (i.e. hotel property) based on the nature, characteristics and risks of the property. The property, plant and equipment was valued by Colliers International (Hong Kong) Limited ("Colliers"), an independent property valuer and the principal valuer of Regal REIT, at HK\$692,000,000 as at 30th June, 2018 (31st December, 2017: HK\$656,000,000). A revaluation surplus of HK\$39,775,000 (31st December, 2017: HK\$71,896,000) resulting from the valuation as at 30th June, 2018 has been credited to other comprehensive income.

The property, plant and equipment is classified 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 15).

The carrying amount of the Group's property, plant and equipment would have been HK\$403,091,000 (31st December, 2017: HK\$405,586,000) 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 64.

## 11. INVESTMENT PROPERTIES

	<b>Hotel properties HK\$'000</b>	<b>Commercial properties HK\$'000</b>	<b>Total HK\$'000</b>
At 1st January, 2017	21,414,000	218,000	21,632,000
Addition	1,360,000	—	1,360,000
Fair value changes	2,041,180	3,000	2,044,180
Capital expenditures for the year	99,820	—	99,820
	<u>24,915,000</u>	<u>221,000</u>	<u>25,136,000</u>
At 31st December, 2017 (audited) and 1st January, 2018			
Fair value changes	<b>716,039</b>	—	<b>716,039</b>
Capital expenditures for the period	<b>8,961</b>	—	<b>8,961</b>
	<u>25,640,000</u>	<u>221,000</u>	<u>25,861,000</u>
At 30th June, 2018 (unaudited)			

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\$25,861,000,000 as at 30th June, 2018 (31st December, 2017: HK\$25,136,000,000). The investment properties are leased to a related company and other commercial tenants under operating leases, further details of which are included in note 21(a) to the condensed consolidated financial statements.

The investment properties are classified 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 15).

Further particulars of the Group's investment properties are included on pages 63 to 64.

## 12. ACCOUNTS RECEIVABLE

	<b>30th June, 2018 (unaudited) HK\$'000</b>	31st December, 2017 (audited) HK\$'000
Difference in accounting rental income and contractual cash rental income	<b>5,394</b>	2,262
Variable Rent receivables	<b>16,800</b>	38,100
Other accounts receivable	<b>1,655</b>	1,352
	<b>23,849</b>	41,714

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 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 repayable within one year in accordance with the terms of the respective agreements.

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

## 13. RESTRICTED CASH

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



## 14. ACCOUNTS PAYABLE

	<b>30th June, 2018 (unaudited) HK\$'000</b>	31st December, 2017 (audited) HK\$'000
Amounts due to related companies	47,779	98,831
Other accounts payable	317	618
	<u>48,096</u>	<u>99,449</u>

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

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

## 15. INTEREST-BEARING BANK BORROWINGS

	<b>30th June, 2018 (unaudited) HK\$'000</b>	31st December, 2017 (audited) HK\$'000
Interest-bearing bank borrowings	9,980,000	7,857,000
Debt establishment costs	(66,774)	(49,397)
	<u>9,913,226</u>	<u>7,807,603</u>
Portion classified as current liabilities	<u>(631,031)</u>	<u>(877,000)</u>
Non-current portion	<u>9,282,195</u>	<u>6,930,603</u>
Amounts repayable:		
Within one year	631,031	877,000
In the second year	1,097,460	1,726,633
In the third to fifth years, inclusive	8,184,735	5,203,970
	<u>9,913,226</u>	<u>7,807,603</u>

On 12th September, 2016, Regal REIT, through wholly-owned subsidiaries, Bauhinia Hotels Limited and Rich Day Investments Limited, entered into a facility agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$1,000.0 million (the "2016 IH Facilities"), for a term of five years to September 2021. The 2016 IH Facilities are secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. As at 30th June, 2018, the 2016 IH Facilities had an outstanding term loan facility of HK\$4,500.0 million and the full amount of the revolving loan facility was un-utilised.

On 8th March, 2018, Regal REIT, through a wholly-owned subsidiary, Ricobem Limited, arranged a new bilateral term loan facility of HK\$3,000.0 million (the "2018 RKH Facility"), secured by a mortgage over the Regal Kowloon Hotel. The 2018 RKH Facility was drawn down mainly for refinancing the notes under the medium term note programme ("MTN Programme") that matured in March 2018 and May 2018, respectively. The 2018 RKH Facility has a term of five years to March 2023. As at 30th June, 2018, the outstanding amount of the 2018 RKH Facility was HK\$3,000.0 million, representing the full amount of the term loan facility.

On 22nd December, 2014, the term loan facility agreement for a principal amount of HK\$440.0 million (the "2014 WC Facility"), with a term of five years to December 2019, was entered into by Sonnix Limited, a wholly-owned subsidiary of Regal REIT. The 2014 WC Facility is secured by the iclub Wan Chai Hotel. As at 30th June, 2018, the outstanding amount on the 2014 WC Facility was HK\$440.0 million, representing the full amount of the term loan facility.

On 10th February, 2014, 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 "2014 SW Facilities"), secured by the iclub Sheung Wan Hotel. The 2014 SW Facilities have a term of five years to February 2019. As at 30th June, 2018, the utilised amount of the 2014 SW Facilities was HK\$632.0 million, representing the full amount of the term loan facility.

On 28th July, 2014, Regal REIT, through a wholly-owned subsidiary, Wise Decade Investments Limited, arranged another bilateral loan facility of up to HK\$825.0 million, comprised of a term loan facility of HK\$660.0 million and a revolving loan facility of up to HK\$165.0 million (the "2014 FH Facilities"), secured by the iclub Fortress Hill Hotel. The 2014 FH Facilities have a term of five years to July 2019. As at 30th June, 2018, the outstanding amount of the 2014 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 for a term loan facility of HK\$748.0 million (the "2017 MTW Facility"), secured by the iclub Ma Tau Wai Hotel, with a term of three years to September 2020. As at 30th June, 2018, the outstanding amount of the 2017 MTW Facility was HK\$748.0 million, representing the full amount of the term loan facility.

As at 30th June, 2018, the outstanding loan facilities bore interest at the Hong Kong Interbank Offered Rate plus an interest margin ranging from 0.92% per annum to 1.45% per annum (31st December, 2017: ranging from 0.95% per annum to 1.45% per annum).

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

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

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

## 16. OTHER BORROWINGS

	<b>30th June, 2018 (unaudited) HK\$'000</b>	31st December, 2017 (audited) HK\$'000
Other borrowings, at nominal amount	—	1,946,950
Discount and issue costs	—	(1,182)
	<u>—</u>	<u>1,945,768</u>
Amounts repayable:		
Within one year	<u>—</u>	<u>1,945,768</u>

Subsequent to the establishment and listing of the US\$1.0 billion MTN Programme, in March 2013, a series of unsecured 5-year term notes for an aggregate amount of HK\$775.0 million at a coupon interest rate of 4.125% per annum were issued. The notes were issued at 99.44% of the nominal amount after discount. In May 2013, another series of unsecured 5-year term notes for an aggregate amount of US\$150.0 million at a coupon interest rate of 4.10% per annum were issued. The notes were issued at 99.553% of the nominal amount after discount. As at 30th June, 2018, no notes under the MTN Programme were outstanding as these were repaid on their respective due dates on 22nd March, 2018 and 22nd May, 2018.

## 17. 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, 2017	(29,832)	(476,504)	3,617	(502,719)
Deferred tax charged to other comprehensive income during the year	(11,863)	—	—	(11,863)
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year	376	(47,130)	11,042	(35,712)
Gross deferred tax assets/(liabilities) at 31st December, 2017 (audited)	<u>(41,319)</u>	<u>(523,634)</u>	<u>14,659</u>	<u>(550,294)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2018	<b>(41,319)</b>	<b>(523,634)</b>	<b>14,659</b>	<b>(550,294)</b>
Deferred tax charged to other comprehensive income during the period	<b>(6,564)</b>	—	—	<b>(6,564)</b>
Deferred tax credited/(charged) to the condensed consolidated statement of profit or loss during the period (note 8)	<u>211</u>	<u>(17,364)</u>	<u>(1,838)</u>	<u>(18,991)</u>
Gross deferred tax assets/(liabilities) at 30th June, 2018 (unaudited)	<u><b>(47,672)</b></u>	<u><b>(540,998)</b></u>	<u><b>12,821</b></u>	<u><b>(575,849)</b></u>

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

## 18. NUMBER OF UNITS IN ISSUE

	Number of Units	
	30th June, 2018 (unaudited)	31st December, 2017 (audited)
At beginning and end of the period/year	<u>3,257,431,189</u>	<u>3,257,431,189</u>

## 19. 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, 2018 of HK\$16,229,515,000 (31st December, 2017: HK\$15,484,658,000) by the number of Units in issue of 3,257,431,189 (31st December, 2017: 3,257,431,189) as at that date.

## 20. NOTE TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest- bearing bank borrowings HK\$'000	Other borrowings HK\$'000
At 1st January, 2018	7,807,603	1,945,768
Changes from financing cash flows	2,096,000	(1,952,350)
Non-cash changes:		
Amortisation of debt establishment costs	9,623	590
Interest expense	—	596
Foreign exchange movement	—	5,396
At 30th June, 2018 (unaudited)	<u>9,913,226</u>	<u>—</u>

## 21. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties, as set out in note 11, and certain premises under operating lease arrangements. At 30th June, 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	<b>30th June, 2018 (unaudited) HK\$'000</b>	31st December, 2017 (audited) HK\$'000
Within one year	<b>489,905</b>	906,600
In the second to fifth years, inclusive	<b>209,099</b>	241,411
	<b><u>699,004</u></b>	<u>1,148,011</u>

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

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

### (b) As lessee

The Group leases certain premises under operating lease arrangements which have been negotiated for terms ranging from 1 to 12 years. At 30th June, 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30th June, 2018 (unaudited) HK\$'000</b>	31st December, 2017 (audited) HK\$'000
Within one year	<b>8,570</b>	9,271
In the second to fifth years, inclusive	<b>694</b>	888
	<b><u>9,264</u></b>	<u>10,159</u>

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

During the six months ended 30th June, 2018, the total minimum lease payments under operating leases in respect of land and buildings included in property and hotel operating expenses of HK\$4,663,000 (six months ended 30th June, 2017: HK\$4,698,000) were charged to the condensed consolidated statement of profit or loss.



## 22. COMMITMENTS

In addition to the operating lease commitments detailed in note 21(b) above, the Group had the following capital commitments in respect of its properties at the end of the reporting period:

	<b>30th June, 2018 (unaudited) HK\$'000</b>	31st December, 2017 (audited) HK\$'000
Authorised and contracted for	<b>98</b>	—
Authorised, but not contracted for	<b>87,316</b>	103,227
	<b>87,414</b>	103,227

## 23. 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:

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

(a) Transactions with connected/related parties:

	Notes	Six months ended 30th June, 2018 (unaudited) HK\$'000	Six months ended 30th June, 2017 (unaudited) HK\$'000
Contractual rental income received/receivable from the RHIHL Group	(i)	467,376	444,142
Rental income received/receivable from the RHIHL Group	(ii)	922	551
Hotel management fees charged by the RHIHL Group	(iii)	(815)	(724)
Marketing fees charged by the RHIHL Group	(iv)	(179)	(163)
Building management fees charged by the PHL Group	(v)	(300)	(289)
REIT Manager fees	(vi)	(53,114)	(46,982)
Trustee fees	(vii)	(1,931)	(1,720)
Valuation fees paid/payable to the principal valuer	(viii)	(260)	(220)

Notes:

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

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

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

	Notes	30th June, 2018 (unaudited) HK\$'000	31st December, 2017 (audited) HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables	(i)	16,800	38,100
Accounts payable to related companies	(ii)	(47,779)	(98,831)
Other payables	(ii)	—	(154)
Amounts due from related companies	(ii)	5,444	4,599
Amounts due to related companies	(ii)	(4,156)	(10,723)
Net amounts due from the PHL Group:			
Deposits paid	(ii)	1,212	1,212
Net amounts due to:			
The Trustee	(iii)	(971)	(1,231)
The principal valuer	(iv)	(260)	(510)
Restricted and non-restricted bank balances with the Deutsche Bank Group	(v)	<u>155</u>	<u>156</u>

Notes:

- (i) Details of the balances are set out in note 12 to the condensed consolidated financial statements.
  - (ii) The amounts are unsecured, interest-free and repayable on demand/within one year.
  - (iii) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
  - (iv) The amount is repayable in accordance with the terms of the relevant agreement.
  - (v) The bank balances earn interest at prevailing market rates.
- (c) The RHIHL Group has guaranteed to pay all amounts from time to time owing or payable by the lessee of the Initial Hotels to the Group under the respective lease agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. In this connection, the RHIHL Group undertook to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK\$4 billion. Under the Market Rental Package for 2018, the RHIHL Group provided third party guarantee as security deposit for an amount of HK\$187.75 million (2017: HK\$183.25 million), which is equivalent to three-month Base Rent for the year 2018, 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 23rd December, 2010, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Wan Chai Hotel for a 10-year term commencing on 1st January, 2011.

- (f) On 10th February, 2014, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Sheung Wan Hotel for a 10-year term commencing on 10th February, 2014.
- (g) On 28th July, 2014, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Fortress Hill Hotel for a 10-year term commencing on 28th July, 2014.
- (h) On 4th September, 2017, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Ma Tau Wai Hotel for a 10-year term commencing on 4th September, 2017.

#### **24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

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



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

## INTRODUCTION

We have reviewed the interim financial information set out on pages 31 to 61, which comprises the condensed consolidated statement of financial position of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries as at 30th June, 2018, and the related condensed consolidated statement of profit or loss, statement of comprehensive income, statement of changes in net assets and statement of cash flows and the distribution statement for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

## SCOPE OF REVIEW

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

## CONCLUSION

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

**Ernst & Young**  
*Certified Public Accountants*

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

27th August, 2018

## SUMMARY OF PROPERTY PORTFOLIO

As at 30th June, 2018

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, 2018

	<b>Description</b>	<b>Use</b>	<b>Lease</b>	<b>Gross Floor Area (sq.m.)</b>	<b>Approx. Covered Floor Area (sq.m.)</b>	<b>Percentage interest attributable to Regal REIT</b>
(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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