



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)

2015 INTERIM REPORT



Managed by



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

2	Corporate Information
3	Chairman's Statement
6	Management Discussion and Analysis
18	Other Information and Disclosures
19	Corporate Governance
20	Connected Party Transactions
25	Disclosure of Interests
27	Performance Table
28	Condensed Consolidated Financial Statements
28	Condensed Consolidated Statement of Profit or Loss
29	Condensed Consolidated Statement of Comprehensive Income
30	Condensed Consolidated Statement of Financial Position
32	Condensed Consolidated Statement of Changes in Net Assets
33	Distribution Statement
34	Condensed Consolidated Statement of Cash Flows
35	Notes to the Condensed Consolidated Financial Statements
57	Review of Interim Results
58	Report on Review of Interim Financial Information
59	Investment/Hotel Properties Portfolio

CORPORATE INFORMATION

MANAGER OF REGAL REIT

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BOARD OF DIRECTORS OF THE REIT MANAGER

Non-executive Directors

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

Executive Directors

Johnny Chen Sing Hung
Simon Lam Man Lim

Independent Non-executive Directors

John William Crawford, JP
Alvin Leslie Lam Kwing Wai
Kai Ole Ringenson
Abraham Shek Lai Him, GBS, JP

AUDIT COMMITTEE OF THE REIT MANAGER

John William Crawford, JP (Chairman)
Alvin Leslie Lam Kwing Wai
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
Yip Yat Wa

SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

TRUSTEE OF REGAL REIT

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

AUDITORS

Ernst & Young

PRINCIPAL VALUER

Savills Valuation and Professional Services Limited

PRINCIPAL BANKERS

Australia and New Zealand Banking Group Limited
The Bank of East Asia, Limited
Bank Sino Pac, Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
Crédit Agricole Corporate & Investment Bank,
Hong Kong Branch
CTBC Bank Co. Ltd.
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Mega International Commercial Bank Co. Ltd.,
Offshore Banking Branch
Oversea-Chinese Banking Corporation Limited,
Hong Kong Branch
Sumitomo Mitsui Banking Corporation
United Overseas Bank Limited

LEGAL ADVISERS

Baker & McKenzie

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WEBSITE

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Dear Unitholders,

I am pleased to present, on behalf of the Board of Directors of Regal Portfolio Management Limited as the REIT Manager, the 2015 Interim Report of Regal Real Estate Investment Trust.

For the six months ended 30th June, 2015, Regal REIT recorded an unaudited consolidated loss before distribution to Unitholders of HK\$1,376.9 million, as compared to the profit of HK\$319.6 million attained in the corresponding period in 2014. When reviewing these comparative results, Unitholders should note that, based on the market valuations appraised by the principal valuer of Regal REIT as of 30th June, 2015, there was a reduction of HK\$1,631.4 million in the fair value of the investment properties portfolio reflected in the results for the Interim Period, while for the comparative period last year, a fair value gain of HK\$74.0 million was recorded. If the fair value changes are excluded, the core profit before distribution to Unitholders for the Interim Period would amount to HK\$254.6 million, an increase of approximately 3.6% over HK\$245.6 million attained for the corresponding period in 2014.

Total distributable income for the Interim Period amounted to HK\$263.5 million, equivalent to approximately HK\$0.0809 per Unit, and represents an increase of HK\$6.9 million (equivalent to approximately 2.7%) over the HK\$256.6 million attained for the same period in 2014. 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, 2015, which is the same as the 2014 interim distribution, and represents a distribution ratio of approximately 91.5% for the Interim Period.

For the period under review, most of the advanced world economies sustained gradual recoveries. The International Monetary Fund has projected global growth at 3.3% in 2015, which is marginally lower than in 2014, with a gradual pickup in advanced economies and a slowdown in emerging market and developing economies. While the economy in the United States is expected to continue to strengthen, it is generally believed that the US Dollar interest rate may revert to an upward trend and if its interest rate indeed begins to rise in the not too distant future, it may have a significant impact on the global economy. In the emerging market economies, the continued slowdown reflected several factors, including lower commodity prices and tighter external financial conditions, structural bottlenecks, rebalancing in China, and economic distress related to geopolitical factors. Through various accommodative fiscal policies to support domestic demand, China was able to maintain a growth rate of 7% year-on-year in its Gross Domestic Product (GDP) for both the first and second quarters of 2015. China remains one of the highest growth economies globally and a key economic partner to Hong Kong.

Meanwhile, Hong Kong's economy expanded moderately by 2.6% in the first half of 2015 and the GDP for the whole year is forecast to grow by 2% to 3% in real terms. In the same period, total visitors to Hong Kong amounted to over 29.3 million, representing a modest increase of 2.8% year-on-year, with visitors from Mainland China accounting for about 78% of the total headcount. In this total headcount, overnight visitors amounted to 12.7 million, which actually decreased by 3.8% year-on-year, primarily due to the substantial decline in the number of visitors from Mainland China under the Individual Visit Scheme since March 2015. At the same time, the value of total retail sales in Hong Kong contracted by 1.6% year-on-year, with the adverse change most notable in the high end consumer goods sector.

Against this backdrop, the average hotel room occupancy for all the surveyed hotels under different categories in Hong Kong for the half year ended 30th June dropped from 89% in 2014 to 85% in 2015, with the average achieved room rate also shrinking by 8.7% over the same comparative period, based on information published by the Hong Kong Tourism Board.

The setback in Hong Kong's tourism and related business sectors in recent months can be attributed to a number of factors, including the strengthening of the Hong Kong Dollar, the lowering of spending by stay-over visitors, the spill-over effects from the Occupy Central movement and, more recently, the anti-parallel trading activities that have deterred many Mainland travellers from visiting Hong Kong. The implementation of the "one trip per week" policy for Shenzhen residents, who are mostly same day visitors, has, however, had no significant impact on the local hotel market.

During the Interim Period, the five Initial Hotels in Hong Kong, which are operating as full-service hotels under the "Regal" brand name, attained a combined average occupancy rate of 83.0%, a decrease of 9.9 percentage points as compared with the same period last year. Their combined average room rate over the same period also decreased by 3.7%, resulting in a reduction in RevPAR (Revenue per Available Room) of 14.0% year-on-year. Aggregate net property income ("NPI") for these five hotels for the Interim Period amounted to HK\$372.6 million, as compared with HK\$447.2 million attained in the same period in 2014.

The prevailing aggregate base rent for 2015 for the Initial Hotels, which are under leases to a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL"), the immediate listed holding company of Regal REIT, is HK\$763.0 million. As the aggregate NPI of these five hotels for the Interim Period was below the prorated base rent of HK\$381.5 million, no variable rent is receivable.

At the Extraordinary General Meeting ("EGM") held on 14th April, 2015, the independent Unitholders approved the extension of the existing lease agreements for the five Initial Hotels for another 5 years to 31st December, 2020, with the market rental packages for the extended term continuing to be determined annually by a jointly appointed independent professional property valuer. The market rental review for 2016 is being conducted by the independent professional property valuer and will be determined before the end of September 2015.

At the same EGM, the Unitholders also approved revisions to the trust deed of Regal REIT to align with the amendments to the REIT Code that became effective in August 2014. The objectives of the revisions were principally to provide additional flexibility and discretion to Regal REIT, allowing it to invest in certain financial instruments and to undertake property development activities under certain thresholds. Details of these trust deed revisions were set out in the circular to the Unitholders dated 13th March, 2015. With the widening of its investment boundaries, Regal REIT is placed in a more advantageous position when pursuing investment opportunities in the future.

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

The first hotel under the "iclub" brand was the "iclub Wan Chai Hotel", which has been self-operated by Regal REIT since 2011. This hotel has since its opening been well received by individual and business travellers, but due to the stiff market competition arising as a result of the various market factors mentioned above, its operating performance in the Interim Period has also been adversely affected. Though the hotel managed to maintain virtually full occupancy during the period, the average achieved room rate retracted by 22.2%. Aggregate NPI from this property, including increased lease rentals from the non-hotel portions, amounted to HK\$11.5 million for the Interim Period, which was a reduction of approximately 20.0% as compared with the same period last year.

The other two iclub hotels, namely, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel, have also been leased to the same RHIHL lessee under initial lease terms up to 31st December, 2019, with an option to Regal REIT to extend the leases for another five years. The occupancy levels for these two new iclub hotels for the period under review were, respectively, 91.2% and 73.6%, which are considered satisfactory for new start-up hotels under the prevailing market conditions. Rentals for the first three years of the lease terms are fixed and aggregate rental income of HK\$84.0 million was earned for the Interim Period.

Although the second half of the year is traditionally the high season for the local hotel industry, the outlook of the hotel businesses for the coming few months continues to be full of challenges. However, the operating and leasing structures of the properties portfolio of Regal REIT have generally been designed to provide some buffering effects to Regal REIT against short term market fluctuations. Except for the self-operated iclub Wan Chai Hotel, all the other properties owned by Regal REIT are under lease terms with guaranteed annual base rentals and it can thus be expected the overall revenues and distributable income of Regal REIT for the second half of this year will remain stable.

The tourism related industries hope that more Mainland cities will be included in the Individual Visit Scheme to open up new sources of overnight visitors to Hong Kong. On the other hand, Hong Kong will need to put in additional resources to expand its tourist attractions and the Hong Kong community as a whole should also work more closely together to re-cultivate a harmonious environment to maintaining Hong Kong's position as one of the most favourite tourist and shopping destinations in Asia as well as in the world, making it worthy of its long-held reputation.

The Directors of the REIT Manager believe that the recent setback experienced by the tourism market in Hong Kong should be temporary and that the prospects of the hotel businesses in Hong Kong in the long term will remain favourable. The REIT Manager will continue to prudently pursue accretive investment opportunities for Regal REIT, both locally and overseas, with a view to further strengthening its recurring income base.

Lo Yuk Sui

Chairman

Regal Portfolio Management Limited

(as the REIT Manager of Regal REIT)

Hong Kong, 25th August, 2015

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, 2015 to 30th June, 2015 (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 comprising Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the “Initial Hotels”), iclub Wan Chai Hotel, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel (collectively, the “iclub Hotels”) and to be a pre-eminent owner of quality international hotels and other properties with primary focus in Hong Kong as well as to reinforce Regal REIT’s status as a growing attractive option to investors.

THE REIT MANAGER, THE RHIHL LESSEE, THE HOTEL 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 three iclub Hotels directly.

The original leases of the Initial Hotels 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”), will last until 31st December, 2015 under the relevant lease agreements (the “Initial Hotels Lease Agreements”). On 12th March, 2015, Regal REIT and the RHIHL Lessee further entered into a supplemental agreement amending each of the Initial Hotels Lease Agreements to extend the lease term of each Initial Hotels Lease Agreement for another five years to 31st December, 2020, with the market rental packages for the extended term continuing to be determined annually by a jointly appointed independent professional property valuer. Such extended term of each of the Initial Hotels Lease Agreements was approved by the independent Unitholders at an extraordinary general meeting held on 14th April, 2015. 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 (expenses to be split equally between the RHIHL Lessee and Regal REIT). 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 “Market Rental Package”).

Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL, was appointed as the hotel manager (the “Hotel Manager”) under long-term hotel management agreements to operate the Initial Hotels (the “Initial Hotels Management Agreements”) for a term of 20 years from 16th March, 2007. In December 2010, Regal REIT entered into another hotel management agreement with the Hotel Manager for the operation of the hotel portion of iclub Wan Chai Hotel for a term of 10 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 operated directly by Regal REIT.

On 10th February, 2014, Regal REIT completed the acquisition of the iclub Sheung Wan Hotel, which is a new hotel located at No. 138 Bonham Strand, Sheung Wan, Hong Kong, at a total consideration of approximately HK\$1,581.1 million (the “SW Transaction”). Upon completion of the SW Transaction, the iclub Sheung Wan Hotel was leased to the RHIHL Lessee for hotel operations for the period from 10th February, 2014 to 31st December, 2019 under a new lease agreement (the “SW Lease Agreement”), which is extendable at the option of Regal REIT for a further 5 years. The Hotel Manager of the Initial Hotels and the iclub Wan Chai Hotel was appointed as the hotel manager of the iclub Sheung Wan Hotel under a new 10-year hotel management agreement (the “SW Hotel Management Agreement”) commencing on 10th February, 2014. The iclub Sheung Wan Hotel, comprising 34 storeys with 248 guestrooms and suites, commenced business operations in June 2014.

On 28th July, 2014, Regal REIT further completed the acquisition of the iclub Fortress Hill Hotel, which is another new hotel located at No. 18 Merlin Street, North Point, Hong Kong, at a total consideration of approximately HK\$1,651.4 million (the “NP Transaction”). Upon completion of the NP Transaction, the iclub Fortress Hill Hotel was leased to the RHIHL Lessee for hotel operations for the period from 28th July, 2014 to 31st December, 2019 under a new lease agreement (the “FH Lease Agreement”), which is extendable at the option of Regal REIT for a further 5 years. The Hotel Manager was also appointed as the hotel manager of the iclub Fortress Hill Hotel under a new 10-year hotel management agreement commencing on 28th July, 2014. The iclub Fortress Hill Hotel, comprising 32 storeys with 338 guestrooms, commenced business operations in September 2014.

The Trustee is DB Trustees (Hong Kong) Limited, a wholly-owned subsidiary of Deutsche Bank AG. The Trustee is qualified to act as 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 on 11th December, 2006 (as amended by the first supplemental deed dated 2nd March, 2007, the second supplemental deed dated 15th May, 2008, the third supplemental deed dated 8th May, 2009, the fourth supplemental deed dated 23rd July, 2010, the fifth supplemental deed dated 3rd May, 2011, the sixth supplemental deed dated 21st July, 2011 and the seventh supplemental deed dated 14th April, 2015) (collectively, the “Trust Deed”) and all regulatory requirements.

On 14th April, 2015, the Unitholders approved revisions to the Trust Deed to align with the amendments to the Code on Real Estate Investment Trusts (the “REIT Code”) that became effective in August 2014 at an extraordinary general meeting, which allows Regal REIT to undertake property development activities and to invest in certain financial instruments subject to prescribed thresholds and control measures. On the same date, Regal REIT and the Trustee entered into the seventh supplemental deed to effect such amendments to the REIT Code. Details of these Trust Deed revisions were set out in the circular to the Unitholders dated 13th March, 2015.

HOTEL PORTFOLIO

The eight hotel properties of Regal REIT are strategically located in different districts in Hong Kong with easy and convenient access to the mass transit network and other public transportation networks, giving great convenience for hotel guests. 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 convenient accessibility with contemporary design and hi-tech 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
		685	
Total		4,569	

RENTAL AND REVENUE STRUCTURE

Initial Hotels - Rental Structure and Market Rental Package

Market Rental Package for 2015

Mr. David Faulkner, as an independent professional property valuer, was jointly appointed in June 2014 to conduct a rent review for the Initial Hotels for the year 2015. According to the determination of the Market Rental Package for the year 2015, the aggregate amount payable by the RHIHL Lessee as Base Rent for the Initial Hotels was determined to be HK\$763.0 million, with Variable Rent continuing to be based on a sharing of 50% of the excess of the aggregate net property income ("NPI") of the Initial Hotels over the aggregate Base Rent from the operations thereof in 2015. According to the Market Rental Package for 2015, 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 a security deposit, for an aggregate amount of HK\$381.5 million, which is equivalent to six months Base Rent for the year 2015, issued by a licensed bank in Hong Kong. Details of the Market Rental Package for 2015 can be referred to in an announcement published on 26th August, 2014.

Base Rent

Regal REIT receives Base Rent in the form of cash for each Initial Hotel on a monthly basis. During the Interim Period, Regal REIT earned and received an aggregate of HK\$381.5 million in Base Rent.

Variable Rent

Regal REIT receives Variable Rent through the sharing of aggregate profits, if any, from the Initial Hotels' operations over the Base Rent payments. During the Interim Period, as the NPI of HK\$372.6 million from hotel operations of the Initial Hotels was below of the prorated Base Rent and, therefore, no Variable Rent is receivable for the period.

Market Rental Package for 2016

The Initial Hotels Lease Agreements have been extended for another five years to 31st December, 2020, with market rental packages for the extended term continuing to be determined annually by a jointly appointed independent professional property valuer, with the related expenses to be split equally between the RHIHL Lessee and Regal REIT. The market rental review for the Initial Hotels for 2016 is being conducted by Mr. David Faulkner, who determined the Market Rental Packages for 2011 through 2015, and the 2016 package will be determined before the end of September 2015.

iclub Wan Chai Hotel - Revenue Structure

Hotel Portion

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

For the six months ended 30th June, 2015, iclub Wan Chai Hotel - Hotel portion contributed gross hotel revenue of HK\$16.7 million and incurred operating costs and expenses amounting to HK\$8.3 million.

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 independent third parties which generated increased rental income of HK\$3.4 million for the period under review.

iclub Sheung Wan Hotel – Rental Structure

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 5 years.

Fixed Rental Income

Regal REIT receives fixed rentals for the leasing of the iclub Sheung Wan Hotel commencing from 10th February, 2014 to 9th February, 2017. Annual rents for the first three years of the lease term have been determined to be HK\$79.00 million, HK\$82.95 million and HK\$86.90 million, respectively. During the Interim Period, Regal REIT earned rental income of HK\$41.1 million, recognised on straight-line basis.

Rent Reviews

Rent reviews by a jointly appointed independent professional property valuer will 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 extensions thereof to determine the market rental packages, including 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.

iclub Fortress Hill Hotel – Rental Structure

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 5 years.

Fixed Rental Income

Regal REIT receives fixed rentals for the leasing of the iclub Fortress Hill Hotel commencing from 28th July, 2014 to 27th July, 2017. Annual rents for the first three years of the lease term have been determined to be HK\$82.50 million, HK\$86.625 million and HK\$90.75 million, respectively. During the Interim Period, Regal REIT earned rental income of HK\$42.9 million, recognised on straight-line basis.

Rent Reviews

Rent reviews by a jointly appointed independent professional property valuer will 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 extensions thereof to determine the market rental packages, including 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.

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under the respective Initial Hotels Lease Agreements and Wan Chai Hotel Management Agreement to maintain a reserve to fund expenditures for replacements of FF&E in the Initial Hotels and iclub Wan Chai Hotel - Hotel portion, respectively. 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 other income of the hotel properties) for each month. During the Interim Period, FF&E expenditures amounting to HK\$16.2 million were recorded for the purposes intended.

Pursuant to the SW Lease Agreement and the FH Lease Agreement, the RHIHL Lessee is required for the first three years of the lease term to fund the actual costs of any replacements and/or additional FF&E in the iclub Sheung Wan Hotel and/or the iclub Fortress Hill Hotel. During the period under review, no FF&E expenditures were recorded for these two iclub Hotels.

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 2015 versus 1H 2014¹

Visitors to Hong Kong by Geographical Regions	1H 2015 (Percentage of total visitors)	Number of visitors			
		1H 2015	1H 2014	Variance	Variance %
Mainland China	77.9%	22,846,524	21,822,829	1,023,695	4.7%
South & Southeast Asia	5.7%	1,677,313	1,820,181	(142,868)	(7.8%)
North Asia	3.9%	1,134,117	1,138,668	(4,551)	(0.4%)
Taiwan	3.3%	956,914	991,773	(34,859)	(3.5%)
Europe, Africa & the Middle East	3.6%	1,048,813	1,109,047	(60,234)	(5.4%)
The Americas	2.9%	858,095	833,447	24,648	3.0%
Australia, New Zealand & South Pacific	1.1%	334,233	355,682	(21,449)	(6.0%)
Macau SAR	1.6%	471,231	457,588	13,643	3.0%
Total	100.0%	29,327,240	28,529,215	798,025	2.8%
Overnight visitors included in above		12,696,759	13,194,258	(497,499)	(3.8%)

Hong Kong's tourism industry maintained mild and stable growth during the period. Total visitor arrivals in the first half of 2015 reached 29.3 million, showing a steady increase of 2.8% year-on-year.

Mainland visitors continued to take up the largest proportion of total arrivals. Mainland Chinese arrivals rose 4.7% from a year earlier, aggregating to 22.8 million and accounting for 77.9% of the total arrivals to Hong Kong during the first half of 2015.

Arrivals from short-haul markets comprising other Asian regions (including North Asia, South & Southeast Asia, Taiwan and Macau SAR) reached 4.2 million for a slight drop of 3.8% and taking up 14.5% of the aggregate arrival numbers.

Visitors from long-haul markets, still affected by uncertain economic situations, contracted by 2.5% and aggregated 2.2 million. Visitors from the Americas, on the other hand, still reported growth of 3.0%, accounting for 2.9% of total visitors. Arrivals from the Europe, Africa and the Middle East markets displayed a moderate drop by 5.4%, with the visitor numbers reaching approximately 1.0 million and making up 3.6% of the total arrivals.

Out of the total arrivals, overnight visitors aggregated to about 12.7 million, reporting a drop of 3.8% as compared to the same period last year.

¹ Source: Insights & Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Jun 2015", July 2015; "Visitor Arrival Statistics – Jun 2014", July 2014; the REIT Manager.

Review of Hotel Rooms Supply in Hong Kong

During the first quarter of 2015, the hotel room supply in Hong Kong registered growth by 760 units, with an increase of 1.0% from 72,721 to 73,481 rooms. During the period, 4 new hotel properties opened, with the number of hotel properties going up from 244 to 248, representing an increase by 1.6%. By the end of 2015, it is projected that the hotel room supply will reach 74,818 (FY2014: 72,721 units), for a projected year-on-year increase of 2.9%².

Industry Performance

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

Category	Hong Kong Hotel Market Performance (1H 2015 versus 1H 2014) ³					
	Room Occupancy Rates		Average Room Rates		RevPAR	
	1H 2015	1H 2014	1H 2015	1H 2014	1H 2015	1H 2014
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	82	86	2,270	2,446	1,861	2,104
High Tariff B	86	91	1,068	1,204	918	1,096
Medium Tariff	86	91	667	740	574	673
All Hotels	85	89	1,335	1,463	1,135	1,302

During the first half of 2015, in light of the decline in overnight visitors, the overall hotel occupancy rate reached 85%, or a decrease of 4 percentage points year-on-year. The industry-wide average room rate posted a drop of 8.7% to HK\$1,335 per night. Both factors contributed to the decrease in the hotel industry's RevPAR by 12.8% or HK\$167 versus the same period last year.

Performance Highlights of Regal REIT

Regal REIT currently has an aggregate of 4,569 guestrooms and suites in eight hotel properties that are strategically located across Hong Kong. The aggregate property valuation of Regal REIT's property portfolio amounted to HK\$22,411.0 million as at 30th June, 2015, representing a decrease of HK\$1,708.0 million as compared to the valuation of HK\$24,119.0 million as at 31st December, 2014.

Overall, the properties portfolio of Regal REIT achieved satisfactory operating performance during the period under review as compared with the first half of 2014.

2 Source: Insights & Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Mar 2015", May 2015; the REIT Manager.

3 Source: Insights & Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Jun 2015", July 2015; 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 2015 versus 1H 2014 are set out below.

	1H 2015 HK\$'million	1H 2014 HK\$'million	Variance HK\$'million	Variance %
Operating Results				
Room revenue	584.3	679.4	(95.1)	(14.0%)
Food and beverage revenue	302.5	269.1	33.4	12.4%
Other income	20.3	21.1	(0.8)	(3.8%)
Total hotel revenue	907.1	969.6	(62.5)	(6.4%)
Operating expenses	(520.6)	(507.3)	(13.3)	2.6%
Gross operating profit	386.5	462.3	(75.8)	(16.4%)
Other expenses	(34.9)	(35.6)	0.7	(2.0%)
Net rental income	21.0	20.5	0.5	2.4%
Net property income	372.6	447.2	(74.6)	(16.7%)
Statistics				
Average room rate	HK\$1,000.88	HK\$1,039.33	(HK\$38.45)	(3.7%)
Occupancy rate	83.0%	92.9%	(9.9%)	(10.7%)
RevPAR	HK\$830.93	HK\$965.93	(HK\$135.00)	(14.0%)
Total available room nights	703,004	703,185	(181)	(0.0%)
Occupied room nights	583,635	653,525	(69,890)	(10.7%)

In light of the setbacks in the local hotel market, total hotel revenue of the Initial Hotels reported a year-on-year decrease by HK\$62.5 million or by 6.4% to HK\$907.1 million (1H 2014: HK\$969.6 million). Gross operating profit attained HK\$386.5 million (1H 2014: HK\$462.3 million), declining by 16.4%. Likewise, net property income achieved HK\$372.6 million, recording a decrease of HK\$74.6 million or 16.7% compared with the same period last year (1H 2014: HK\$447.2 million).

For the period under review, the average occupancy rate of the Initial Hotels attained 83.0% (1H 2014: 92.9%). The average room rate, under strong competition, recorded a moderate decrease by 3.7%, reaching HK\$1,000.88 (1H 2014: HK\$1,039.33). Likewise, the RevPAR of the Initial Hotels was HK\$830.93 (1H 2014: HK\$965.93), representing a decrease of 14.0% year-on-year.

Performance of iclub Wan Chai Hotel

During the period under review, the average occupancy rate of iclub Wan Chai Hotel was close to 100%. The average room rate attained around HK\$928, or a drop of about 22% from approximately HK\$1,193 as reported in the same period last year.

Performance of iclub Sheung Wan Hotel

The iclub Sheung Wan Hotel achieved an overall occupancy rate of 91.2% for the Interim Period and operated with a steady performance. During the period under review, Regal REIT earned fixed rental income, as pre-determined in accordance to the terms of the SW Lease Agreement that took effect from the completion date of acquisition on 10th February, 2014.

Performance of iclub Fortress Hill Hotel

The iclub Fortress Hill Hotel achieved a 73.6% occupancy rate for the Interim Period, with its performance considered satisfactory for a new start-up hotel. During the period under review, Regal REIT earned fixed rental income, as pre-determined in accordance with the terms of the FH Lease Agreement that took effect from the completion date of acquisition on 28th July, 2014.

Net Rental and Hotel Income

An analysis of the net rental and hotel income for the Interim Period compared to the corresponding period in 2014 is set out below.

	Six months ended 30th June, 2015		Six months ended 30th June, 2014	
	HK\$'million	%	HK\$'million	%
Initial Hotels				
Base Rent	381.5	77.7	371.5	79.2
Variable Rent	–	–	37.8	8.0
Other income	5.4	1.1	5.4	1.1
iclub Sheung Wan Hotel				
Rental income	41.1	8.4	30.8	6.6
iclub Fortress Hill Hotel				
Rental income	42.9	8.7	–	–
iclub Wan Chai Hotel				
Gross hotel revenue	16.7	3.4	21.5	4.6
Rental income	3.4	0.7	2.3	0.5
Gross rental and hotel income	491.0	100.0	469.3	100.0
Property operating expenses	(6.8)	(1.4)	(5.7)	(1.2)
Hotel operating expenses	(8.3)	(1.7)	(9.2)	(2.0)
Net rental and hotel income	475.9	96.9	454.4	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 of the hotel properties are provided by the hotel manager under the relevant hotel management agreements with respect to the Initial Hotels, iclub Wan Chai Hotel – Hotel portion, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel.

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\$263.5 million, representing an entitlement of approximate HK\$0.0809 per Unit.

Interim Distribution for 2015

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 16th September, 2015.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Monday, 14th September, 2015 to Wednesday, 16th September, 2015, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the interim distribution for 2015, all unit certificates with completed transfer forms must be lodged with Regal REIT's Unit registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Friday, 11th September, 2015. The relevant distribution warrants are expected to be despatched on or about 5th October, 2015.

Valuation of the Properties Portfolio

As at 30th June, 2015, Regal REIT's eight properties in its portfolio were appraised at an aggregate value of HK\$22,411.0 million (31st December, 2014: HK\$24,119.0 million). The properties portfolio is comprised of the five Initial Hotels, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the non-hotel portions of iclub Wan Chai Hotel that are classified as investment properties and the owner-operated hotel portion of iclub Wan Chai Hotel which is classified as property, plant and equipment.

Valuations of the properties as at 30th June, 2015 are tabulated below.

Property	Location	30 Jun 2015 Valuation HK\$ million	31 Dec 2014 Valuation HK\$ million	% Change
<i>Initial Hotels:</i>				
Regal Airport Hotel	Lantau Island	3,500	3,480	0.6%
Regal Hongkong Hotel	HK Island	3,820	4,180	(8.6%)
Regal Kowloon Hotel	Kowloon	5,110	5,480	(6.8%)
Regal Oriental Hotel	Kowloon	1,940	2,160	(10.2%)
Regal Riverside Hotel	New Territories	4,290	4,700	(8.7%)
		18,660	20,000	(6.7%)
<i>iclub Hotels:</i>				
iclub Wan Chai Hotel	HK Island	801	889	(9.9%)
iclub Sheung Wan Hotel	HK Island	1,440	1,580	(8.9%)
iclub Fortress Hill Hotel	HK Island	1,510	1,650	(8.5%)
		22,411	24,119	(7.1%)

The valuation of the properties portfolio as at 30th June, 2015 was conducted by Savills Valuation and Professional Services Limited ("Savills"), the principal valuer of Regal REIT appointed by the Trustee pursuant to the provisions of the REIT Code.

Savills, an independent professional property valuer, assessed the market values of the properties portfolio subject to the lease agreements, hotel operations and the hotel management agreements and in accordance with "The HKIS Valuation Standards (2012 Edition)", the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the REIT Code. Savills used the discounted cash flow ("DCF") method based on key assumptions such as hotel room occupancies, hotel average room rates, terminal capitalisation rates and discount rates. The direct comparison method was also used as a check on the valuation arrived at from the DCF method.

Net Assets Attributable to Unitholders

As at 30th June, 2015, net assets attributable to Unitholders amounted to HK\$13,763.3 million (31st December, 2014: HK\$15,502.6 million), representing net asset value ("NAV") per Unit attributable to Unitholders of HK\$4.225, which was below the NAV of HK\$4.759 per Unit as at 31st December, 2014 due to the reduction in the fair value of the properties portfolio.

Capital Additions Projects

A total of up to 410 guestrooms and suites within the five Initial Hotels were scheduled to be taken out of operation at different times in 2015 for renovation and upgrading work under an ongoing asset enhancement programme and, in this regard, the renovation work for 232 rooms was completed on or before 30th June, 2015 and the rooms put back in operation. In addition, certain engineering facilities and replacement work projects have also been planned and are ongoing.

Financial Review and Financing Strategy

At 30th June, 2015, Regal REIT had unsecured notes due in 2018 for an aggregate nominal principal amount of HK\$1,938.0 million and bank loan facilities of up to HK\$6,855.0 million with different maturity terms.

Regal REIT Medium Term Note Programme and Notes Issuance

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.

As disclosed in previous interim reports and annual reports of Regal REIT since the launch of the MTN Programme, as at 30th June, 2015, the outstanding notes issued in March 2013 and May 2013 under the MTN Programme have an aggregate nominal principal amount of HK\$1,938.0 million, with maturities in 2018.

Loan Financing

As at 30th June, 2015, Regal REIT had loan facilities aggregating HK\$6,855.0 million, comprised of term and revolving loan facilities of up to HK\$4,800.0 million secured by three of the five Initial Hotels, a term loan facility of HK\$440.0 million secured by the iclub Wan Chai Hotel, term and revolving loan facilities of up to HK\$790.0 million secured by the iclub Sheung Wan Hotel, and term and revolving loan facilities of up to HK\$825.0 million secured by the iclub Fortress Hill Hotel.

Financing for the Initial Hotels

The agreement for term loan facilities of HK\$4,500.0 million and a revolving loan facility of up to HK\$300.0 million (the "2013 IH Facilities") was entered into on 23rd July, 2013 by Regal REIT, through its wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, for a term of five years to July 2018, and is secured by three of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel. The 2013 IH Facilities bear Hong Kong Interbank Offered Rates (HIBOR)-based interest. As at 30th June, 2015, the outstanding amount on the 2013 IH Facilities was HK\$4,500.0 million comprised solely of the full amount of the term loan facilities.

Subsequent to the Interim Period end, Regal REIT cancelled the HK\$300.0 million revolving loan facility under the 2013 IH Facilities on 23rd July, 2015 as there are other unutilised revolving loan facilities available which bear lower rates of interest.

Financing for iclub Wan Chai Hotel

As disclosed in 2014 annual report of Regal REIT, on 22nd December, 2014, a term loan facility agreement for a principal amount of HK\$440.0 million (the "2014 WC Facility") was entered into, for a term of five years to December 2019 by Sonnix Limited, an indirect wholly-owned subsidiary of Regal REIT. The 2014 WC Facility, secured by the iclub Wan Chai Hotel, bears HIBOR-based interest throughout the term and was fully drawn, with the proceeds being applied mainly for the repayment of the previous term loan facility entered into in 2012.

As at 30th June, 2015, the outstanding amount on the 2014 WC Facility was HK\$440.0 million.

Financing for iclub Sheung Wan Hotel

On 10th February, 2014, Regal REIT, through its wholly-owned subsidiary, Tristan Limited, arranged for 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, used primarily to complete the acquisition of the iclub Sheung Wan Hotel after deduction of the deposit of HK\$948.0 million from the purchase consideration, have a term of five years to February 2019.

As at 30th June, 2015, the utilised 2014 SW Facilities were comprised of the full term loan amount of HK\$632.0 million only.

Financing for iclub Fortress Hill Hotel

On 28th July, 2014, Regal REIT, through its wholly-owned subsidiary, Wise Decade Investments Limited, arranged for 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"). The 2014 FH Facilities, arranged primarily to complete the acquisition of the iclub Fortress Hill Hotel after deduction of the refundable cash collateral of HK\$990.0 million from the purchase consideration, have a term of five years to July 2019.

As at 30th June, 2015, the utilised 2014 FH Facilities were comprised of the full term loan amount of HK\$660.0 million and part of the revolving loan facility amounting HK\$65.0 million.

Managing Fluctuations in Interest Rates

In order to hedge against fluctuations in interest rates, Regal REIT entered into certain interest rate swap arrangements covering the period from 2012 to March 2015. As at 30th June, 2015, the interest costs in respect of the aggregate loan facilities are all subject to a floating HIBOR margin. The REIT Manager monitors the market interest rate trends and is continuously assessing any need to hedge against the floating HIBOR margin for the remaining period of the respective loan tenors.

Gearing and Cash

As at 30th June, 2015, the gearing ratio of Regal REIT was 36.6% (2014 Interim: 31.8%), being the gross amount of the outstanding loans and debts aggregating HK\$8,235.0 million, which takes into account: (a) the debts in relation to the notes issued in March 2013 and May 2013 under the MTN Programme for an aggregate amount of HK\$1,938.0 million; (b) the 2013 IH Facilities of HK\$4,500.0 million; (c) the 2014 WC Facility of HK\$440.0 million; (d) the 2014 SW Facilities of HK\$632.0 million; and (e) the 2014 FH Facilities of HK\$725.0 million, as compared to the total gross assets of Regal REIT of HK\$22,525.7 million, which is below the maximum 45% permitted under the REIT Code.

As at 30th June, 2015, Regal REIT had a total of HK\$58.8 million in unrestricted and HK\$38.1 million in restricted cash balances and bank deposits, and unutilised revolving loan facilities of HK\$258.0 million after adjusting for the cancellation of the HK\$300.0 million revolving loan facility under the 2013 IH Facilities. 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.

As at 30th June, 2015, six of the eight Regal REIT's properties, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Riverside Hotel, iclub Wan Chai Hotel, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel, with an aggregate carrying value of HK\$15,361.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

OTHER INFORMATION AND DISCLOSURES

PUBLIC FLOAT

As at 30th June, 2015, 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, 2015.

NEW UNITS ISSUED

There were no new Units issued during the Interim Period.

EMPLOYEES

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

BUY-BACK, SALE OR REDEMPTION OF UNITS

There were no buy-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 INVESTMENT

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.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Under the Foreign Account Tax Compliance Act ("FATCA") issued by the government of the United States ("US"), the US taxpayers holding foreign financial accounts are subject to US tax obligations. A "foreign financial institution" (the "FFI") within FATCA will need to conduct due diligence to identify and report to the US Internal Revenue Service (the "IRS") information in respect of relevant foreign financial accounts. The inter-governmental agreement (the "IGA") was signed between the Hong Kong Special Administrative Region and US for the implementation of FATCA on 13th November, 2014. Regal REIT, acting upon professional tax opinion and legal advice from its legal advisor, has registered as an FFI with the IRS and made the FATCA reporting on certain details of Unitholders who are US taxpayers in compliance with the related requirements before the stipulated deadline applicable to all FFIs in Hong Kong.

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 high standards of corporate governance to ensure that the relevant regulations and legislation are adhered to.

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

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 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") 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 (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Units Dealings Code may be extended to senior executives, officers and other employees of the REIT Manager as the Board may determine. Following specific enquiries by the REIT Manager, the Directors of the REIT Manager and the REIT Manager have confirmed that they have complied with the required standards under the Model Code and the Units Dealings Code during the Interim Period.

CHANGE OF INFORMATION OF DIRECTORS

Subsequent to publication of the 2014 annual report of Regal REIT, the REIT Manager was informed of the following changes of Director's information:

Name of Director	Details of changes
Mr. John William Crawford	– Resigned as an independent non-executive director and the chairman of the audit committee of e-Kong Group Limited, a company listed on the Stock Exchange, both with effect from 8th June, 2015.
Hon. Abraham Shek Lai Him	– Appointed as an independent non-executive director of Jinheng Automotive Safety Technology Holdings Limited, a company listed on the Stock Exchange, with effect from 25th June, 2015.

CONNECTED PARTY TRANSACTIONS

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

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

RHIHL CONNECTED PERSONS GROUP

(a) Initial Hotels Lease Agreements

Each of Bauhinia Hotels Limited, Cityability Limited, Gala Hotels Limited, Regal Riverside Hotel Limited and Ricobem Limited, in relation to Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel, Regal Riverside Hotel and Regal Kowloon Hotel, 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 amended by first supplemental lease agreement on 12th February, 2010). On 12th March, 2015, each of the Initial Hotel – Property Companies had entered into (a) the second supplemental lease agreement in respect of each Initial Hotel with the RHIHL Lessee to: (i) extend the original term of each of the Initial Hotels Lease Agreement, which will expire on 31st December, 2015, by a further five years from 1st January, 2016 to 31st December, 2020 (the “Extended Period”). As a result, the total lease term of each Initial Hotels Lease Agreement will be from the Listing Date to 31st December, 2020; and (ii) amend the formula for calculating the amount of the security deposit during the Extended Period, (together, the “Lease Extension/Amendment”); and (b) the first supplemental lease guarantee in respect of each Initial Hotel with the Trustee and RHIHL to make consequential amendments in light of the Lease Extension/Amendment, so that RHIHL’s obligation to maintain a third party guarantee will cover the Extended Period and track changes to the formula for calculating the amount of the security deposit under the Lease Extension/Amendment. The above mentioned the second supplemental lease agreements and the first supplemental lease guarantees had become effective upon the independent Unitholders’ approval being obtained at the extraordinary general meeting of Regal REIT held on 14th April, 2015. References can be made to the related announcements dated 13th March, 2015 and 14th April, 2015 and the related circular to Unitholders dated 13th March, 2015, as published by the REIT Manager for further details of this continuing connected party transaction. The RHIHL Lessee is a member of the RHIHL Connected Persons Group.

Under the terms of each Initial Hotels Lease Agreement (as may be amended from time to time), the RHIHL Lessee makes lease payments to the Initial Hotel – Property Company and is entitled to operate and manage the Initial Hotel owned by the Initial Hotel – Property Company and, accordingly, all income received from the operation of the relevant Initial Hotel shall, during the term of the Initial Hotels Lease Agreements, be retained by the RHIHL Lessee.

During the Interim Period, total contractual lease income under the Initial Hotels Lease Agreements amounted to approximately HK\$386.9 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 among (1) the relevant Initial Hotel – Property Company, (2) the RHIHL Lessee, (3) the Hotel Manager, (4) Regal Asset Holdings Limited and (5) RHIHL, for a term of 20 years from 16th March, 2007.

Each Initial Hotel – Property Company is a party to an 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.

The RHIHL Lessee and the Hotel Manager are members of the RHIHL Connected Persons Group.

(c) Initial Hotels Lease Guarantees

RHIHL 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, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs by entering into the lease guarantees (as amended by first supplemental lease guarantee on 12th March, 2015) (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 (the "Initial Hotels 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 use 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, at a management fee comprised of a base fee which is equal to 2% of the gross hotel revenue derived from iclub Wan Chai Hotel and an incentive fee which is equal to 5% of the excess of the gross operating profit of iclub Wan Chai Hotel over the base fee and certain fixed charges for each fiscal year during the term of the Wan Chai Hotel Management Agreement.

During the Interim Period, total management fee 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 a lease agreement (the “SW Lease Agreement”) in relation to the leasing of the iclub Sheung Wan Hotel with the RHIHL Lessee after the completion of acquisition of the iclub Sheung Wan Hotel on 10th February, 2014. The RHIHL Lessee is a member of the RHIHL Connected Persons Group. The term of the SW Lease Agreement expires on 31st December, 2019, which is extendable at the option of Regal REIT for a further 5 years. Under the terms of the SW Lease Agreement, the RHIHL Lessee makes lease payments to the iclub Sheung Wan Hotel – Property Company and is entitled to operate and manage the iclub Sheung Wan Hotel owned by the iclub Sheung Wan Hotel – Property Company and, accordingly, all income received from the iclub Sheung Wan Hotel shall, during the term of the SW Lease Agreement, be retained by the RHIHL Lessee.

During Interim Periods, total contractual cash rental income under the SW Lease Agreement amounted to approximately HK\$41.0 million.

(g) SW Lease Guarantee

Pursuant to a lease guarantee entered into on 10th February, 2014 (the “SW Lease Guarantee”), RHIHL has guaranteed: (a) the RHIHL Lessee’s obligations to pay to the iclub Sheung Wan Hotel – Property Company and the Trustee, on demand by the iclub Sheung Wan Hotel – Property Company or the Trustee (on behalf of Regal REIT and at the direction of the REIT Manager), all amounts (including, without limitation, all rents, other charges and outgoings, interest, default interest, fees and costs) from time to time owing or payable to the iclub Sheung Wan Hotel – Property Company under the SW Lease Agreement, and (b) the due observance and performance of, all terms, conditions, covenants, agreements and obligations contained in the SW Lease Agreement, and on the part of the RHIHL Lessee, to be observed and performed. RHIHL is a member of the RHIHL Connected Person Group.

(h) SW Hotel Management Agreement

On 10th February, 2014, Regal REIT (via the iclub Sheung Wan Hotel – Property Company) entered into a new hotel management agreement (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. The Hotel Manager is engaged to act as the exclusive operator and manager of the iclub Sheung Wan Hotel to supervise, direct and control the management, operation and promotion of the business of the iclub Sheung Wan Hotel during the operating term of the SW Hotel Management Agreement.

(i) FH Lease Agreement

Regal REIT (via Wise Decade Investments Limited (the “iclub Fortress Hill Hotel – Property Company”) entered into a lease agreement (the “FH Lease Agreement”) in relation to the leasing of the iclub Fortress Hill Hotel with the RHIHL Lessee after the completion of acquisition of the iclub Fortress Hill Hotel on 28th July, 2014. The RHIHL Lessee is a member of the RHIHL Connected Persons Group. The term of the FH Lease Agreement expires on 31st December, 2019, which is extendable at the option of Regal REIT for a further 5 years. Under the terms of the FH Lease Agreement, the RHIHL Lessee makes lease payments to the iclub Fortress Hill Hotel – Property Company and is entitled to operate and manage the iclub Fortress Hill Hotel owned by the iclub Fortress Hill Hotel – Property Company and, accordingly, all income received from the iclub Fortress Hill Hotel shall, during the term of the FH Lease Agreement, be retained by the RHIHL Lessee.

During the Interim Period, total contractual cash rental income under the FH Lease Agreement amounted to approximately HK\$41.3 million.

(j) FH Lease Guarantee

Pursuant to a lease guarantee entered into on 28th July, 2014 (the "FH Lease Guarantee"), RHIHL has guaranteed: (a) the RHIHL Lessee's obligations to pay to the iclub Fortress Hill Hotel – Property Company and the Trustee, on demand by the iclub Fortress Hill Hotel – Property Company or the Trustee (on behalf of Regal REIT and at the direction of the REIT Manager), all amounts (including, without limitation, all rents, other charges and outgoings, interest, default interest, fees and costs) from time to time owing or payable to the iclub Fortress Hill Hotel – Property Company under the FH Lease Agreement, and (b) the due observance and performance of all terms, conditions, covenants, agreements and obligations contained in the FH Lease Agreement, and on the part of the RHIHL Lessee, to be observed and performed. RHIHL is a member of the RHIHL Connected Person Group.

(k) FH Hotel Management Agreement

On 28th July, 2014, Regal REIT (via the iclub Fortress Hill Hotel – Property Company) entered into a new hotel management agreement (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. The Hotel Manager is engaged to act as the exclusive operator and manager of the iclub Fortress Hill Hotel to supervise, direct and control the management, operation and promotion of the business of the iclub Fortress Hill Hotel during the operating term of the FH Hotel Management Agreement.

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\$50.7 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.

Waivers from Strict Compliance

- (a) A waiver (the "Initial Hotels – RHIHL Connected Persons Group's Waiver") from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the Initial Hotels Lease Agreements, Initial Hotels Management Agreements, Initial Hotels Lease Guarantees and Initial Hotels Deed of Trade Mark Licence described above, was granted by the SFC on 5th March, 2007 subject to the terms and conditions as set out in the offering circular dated 19th March, 2007 issued by the REIT Manager (the "Offering Circular").

As a consequence of the Lease Extension/Amendment, on 14th April, 2015, the SFC further extended its waiver term of the Initial Hotels – RHIHL Connected Persons Group's Waiver in respect of the Initial Hotel Lease Agreements, so that such waiver will only cease on the date of expiry (being 31st December, 2020) or termination of such agreements, whichever is earlier. Reference can be made to the related announcement dated 14th April, 2015 published by the REIT Manager.

During the Interim Period, Regal REIT has complied with the terms and conditions of the Initial Hotels – RHIHL Connected Persons Group's Waiver.

- (b) On 17th July, 2013, the SFC granted (subject to the terms and conditions as set out in the announcement dated 18th July, 2013 published by the REIT Manager) a waiver from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of the SW Lease Agreement, the SW Lease Guarantee, the SW Hotel Management Agreement, the FH Lease Agreement, the FH Lease Guarantee and the FH Hotel Management Agreement described above (the "SW & FH Hotels – RHIHL Connected Persons Group's Waiver").

During the Interim Period, Regal REIT has complied with the terms and conditions of the SW & FH Hotels – RHIHL Connected Persons Group's Waiver.

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, are 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\$2,000.

Ordinary Banking Services

Regal Asset Holdings Limited engaged Deutsche Bank AG, a member of the Trustee Connected Persons Group, to provide ordinary banking and financial services such as bank deposits during the year in the ordinary and usual course of business of the Regal REIT Group and on normal commercial terms.

Trustee Fees

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

Waiver from Strict Compliance

A waiver (the "Trustee Connected Persons Group's Waiver") from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the above transactions with connected persons (as defined in paragraph 8.1 of the REIT Code) of the Trustee was granted by the SFC on 5th March, 2007 subject to certain terms and conditions as set out in the Offering Circular.

During the Interim Period, Regal REIT has complied with the terms and conditions of the Trustee Connected Persons Group's Waiver.

VALUER CONNECTED PERSONS GROUP

Savills, 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\$0.4 million in aggregate was charged by Savills for the rendering of valuation and other services.

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, 2015, the following Significant Unitholders (as defined in paragraph 8.1 of the REIT Code) (not being a director or chief executive of the REIT Manager) had an interest in the Units as recorded in the register required to be kept under section 336 of the SFO:

Name of Significant Unitholders	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2015 ^(x)
Century City International Holdings Limited ("CCIHL")	2,443,033,102 (Note i)	74.99%
Century City BVI Holdings Limited ("CCBVI")	2,443,033,102 (Notes i & ii)	74.99%
Paliburg Holdings Limited ("PHL")	2,440,346,102 (Notes iii & iv)	74.92%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,440,346,102 (Notes iii & v)	74.92%
Regal Hotels International Holdings Limited ("RHIHL")	2,439,613,739 (Notes vi & vii)	74.89%
Regal International (BVI) Holdings Limited ("RBVI")	2,439,613,739 (Notes vi & viii)	74.89%
Complete Success Investments Limited	1,817,012,072 (Note ix)	55.78%
Great Prestige Investments Limited	373,134,326 (Note ix)	11.45%

Notes:

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

- (iv) PHL is a listed subsidiary of CCBVI, which held an approximately 62.23% shareholding interest in PHL as at 30th June, 2015, 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 66.06% shareholding interest in RHIHL as at 30th June, 2015, 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, 2015.

Save as disclosed herein, there were no other persons who, as at 30th June, 2015, had interests in Units which are recorded in the register required to be kept under section 336 of the SFO.

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

As at 30th June, 2015, the interests of the REIT Manager, directors and the chief executives of the REIT Manager in Units, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the REIT Manager and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code in the Listing Rules, 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, 2015⁽ⁱⁱⁱ⁾
LO Yuk Sui	2,443,033,102 (Note i)	74.99%
Regal Portfolio Management Limited	120,381,598 (Note ii)	3.70%

Notes:

- (i) The interests in 2,443,033,102 Units were the same parcel of Units held through CCIHL in which Mr. Lo Yuk Sui held approximately 58.46% shareholding interest as at 30th June, 2015.
- (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, 2015.

Save as disclosed herein, as at 30th June, 2015, none of the REIT Manager, the directors and the chief executives of the REIT Manager had any interests in Units, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code to be notified to the REIT Manager and the Stock Exchange. 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, 2015

		Six months ended	Six months ended	Six months ended	Six months ended	Six months ended
	Notes	30th June, 2015	30th June, 2014	30th June, 2013	30th June, 2012	30th June, 2011
Net assets attributable to Unitholders (HK\$'million)		13,763.3	15,825.4	15,975.2	13,174.2	11,680.5
Net asset value per Unit attributable to Unitholders (HK\$)		4.225	4.858	4.904	4.044	3.586
The highest traded price during the period (HK\$)	1	2.37	2.32	2.75	2.18	2.66
The lowest traded price during the period (HK\$)		2.05	1.98	2.15	1.68	2.24
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		51.48%	59.24%	56.16%	58.46%	37.53%
Distribution yield per Unit	2	3.29%	3.54%	2.85%	3.50%	2.25%

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 of 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, 2015 is calculated by dividing the interim distribution per Unit of HK\$0.074 over the closing price of HK\$2.25 as at 30th June, 2015, being 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 33.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30th June, 2015

	Notes	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Revenue			
Gross rental revenue	4	474,396	447,828
Gross hotel revenue	4	16,625	21,482
		<u>491,021</u>	<u>469,310</u>
Property and hotel operating expenses		<u>(15,131)</u>	<u>(14,939)</u>
Net rental and hotel income	4	475,890	454,371
Interest and other income	5	713	26,311
Depreciation	11	(4,347)	(4,241)
Fair value changes on investment properties	12	(1,631,406)	73,964
REIT Manager fees	6	(50,655)	(64,244)
Trust, professional and other expenses	7	(5,884)	(6,389)
Finance costs - excluding distribution to Unitholders	8	<u>(107,222)</u>	<u>(103,770)</u>
PROFIT/(LOSS) BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS		(1,322,911)	376,002
Income tax expense	9	<u>(53,942)</u>	<u>(56,393)</u>
PROFIT/(LOSS) FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		(1,376,853)	319,609
Finance costs - distribution to Unitholders		<u>(286,654)</u>	<u>(270,367)</u>
PROFIT/(LOSS) FOR THE PERIOD, AFTER DISTRIBUTION TO UNITHOLDERS		(1,663,507)	<u>49,242</u>
EARNINGS/(LOSS) PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	10	<u>HK\$(0.423)</u>	<u>HK\$0.098</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2015

	Notes	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		(1,376,853)	319,609
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Changes in fair values of cash flow hedges		(341)	(4,395)
Transfer from hedging reserve to condensed consolidated statement of profit or loss		1,059	3,118
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		718	(1,277)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Gain/(loss) on revaluation of property	11	(91,585)	3,993
Income tax effect	19	15,112	(659)
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		(76,473)	3,334
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		(75,755)	2,057
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		(1,452,608)	321,666

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2015

	Notes	30th June, 2015 (unaudited) HK\$'000	31st December, 2014 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	11	596,000	691,000
Investment properties	12	21,815,000	23,428,000
Total non-current assets		22,411,000	24,119,000
Current assets			
Accounts receivable	13	8,529	56,457
Prepayments, deposits and other receivables		9,274	5,795
Restricted cash	14	38,107	47,156
Cash and cash equivalents		58,760	59,094
Total current assets		114,670	168,502
Total assets		22,525,670	24,287,502
Current liabilities			
Accounts payable	15	40,938	94,292
Deposits received		124	124
Due to related companies		12,136	6,199
Other payables and accruals		26,457	37,216
Interest-bearing bank borrowings	16	65,000	63,000
Derivative financial instruments	18	—	2,024
Tax payable		56,507	32,015
Total current liabilities		201,162	234,870
Net current liabilities		(86,492)	(66,368)
Total assets less current liabilities		22,324,508	24,052,632

		30th June, 2015	31st December, 2014
	Notes	(unaudited) HK\$'000	(audited) HK\$'000
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	16	6,178,832	6,170,739
Other borrowings	17	1,927,786	1,926,604
Deposits received		3,166	2,653
Deferred tax liabilities	19	451,416	450,066
Total non-current liabilities		8,561,200	8,550,062
Total liabilities, excluding net assets attributable to Unitholders			
		8,762,362	8,784,932
Net assets attributable to Unitholders			
		13,763,308	15,502,570
Number of Units in issue			
	20	3,257,431,189	3,257,431,189
Net asset value per Unit attributable to Unitholders			
	21	HK\$4.225	HK\$4.759

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the six months ended 30th June, 2015

	Units (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Hedging 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, 2015	8,432,356	15,876	(718)	226,813	6,828,243	15,502,570
Loss for the period	—	—	—	—	(1,376,853)	(1,376,853)
Other comprehensive income/(loss) for the period:						
Cash flow hedges	—	—	718	—	—	718
Loss on revaluation of property, net of tax	—	—	—	(76,473)	—	(76,473)
Total comprehensive loss for the period, before distribution to Unitholders	—	—	718	(76,473)	(1,376,853)	(1,452,608)
Transfer of depreciation on hotel properties	—	—	—	(1,163)	1,163	—
Finance costs - distribution to Unitholders	—	—	—	—	(286,654)	(286,654)
Net assets as at 30th June, 2015	<u>8,432,356</u>	<u>15,876</u>	<u>—</u>	<u>149,177</u>	<u>5,165,899</u>	<u>13,763,308</u>

For the six months ended 30th June, 2014

	Units (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Hedging 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, 2014	8,432,356	15,876	(2,774)	229,769	7,098,909	15,774,136
Profit for the period	—	—	—	—	319,609	319,609
Other comprehensive income/(loss) for the period:						
Cash flow hedges	—	—	(1,277)	—	—	(1,277)
Gain on revaluation of property, net of tax	—	—	—	3,334	—	3,334
Total comprehensive income for the period, before distribution to Unitholders	—	—	(1,277)	3,334	319,609	321,666
Transfer of depreciation on hotel properties	—	—	—	(1,133)	1,133	—
Finance costs - distribution to Unitholders	—	—	—	—	(270,367)	(270,367)
Net assets as at 30th June, 2014	<u>8,432,356</u>	<u>15,876</u>	<u>(4,051)</u>	<u>231,970</u>	<u>7,149,284</u>	<u>15,825,435</u>

DISTRIBUTION STATEMENT

For the six months ended 30th June, 2015

	Notes	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Profit/(loss) for the period, before distribution to Unitholders		(1,376,853)	319,609
Adjustments:			
Difference in accounting rental income and contractual cash rental income		(1,724)	—
Amounts set aside for furniture, fixtures and equipment reserve	(d)	(18,475)	(19,822)
Amortisation of debt establishment costs		8,925	8,880
Fair value changes on investment properties		1,631,406	(73,964)
Depreciation		4,347	4,241
Foreign exchange differences, net		(574)	(448)
Deferred tax charge		16,462	18,119
Distributable income for the period	(a)	263,514	256,615
Distribution per Unit	(a),(b)&(c)	HK\$0.074	HK\$0.074

Notes:

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

The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. The REIT Manager has resolved to make an interim distribution of HK\$0.074 per Unit for the six months ended 30th June, 2015 (six months ended 30th June, 2014: 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 16th September, 2015 in respect of the interim distribution for the six months ended 30th June, 2015. This interim distribution will be paid out to Unitholders on or about 5th October, 2015.
- (c) The interim distribution of HK\$0.074 per Unit for the six months ended 30th June, 2015, involving a total distribution of HK\$241.0 million, was resolved and declared by the REIT Manager on 25th August, 2015. 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, 2015.
- (d) Amounts set aside by Regal REIT for the furniture, fixtures and equipment reserve ("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"), and iclub Wan Chai Hotel aggregated HK\$18.5 million (six months ended 30th June, 2014: HK\$19.8 million).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2015

	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Net cash flows from operating activities	294,601	209,746
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(932)	(248)
Additions to investment properties	(18,406)	(15,036)
Acquisition of investment property	–	(1,580,000)
Decrease in deposits	–	948,000
Decrease in restricted cash	6,607	7,871
Interest received	–	33,772
Net cash flows used in investing activities	(12,731)	(605,641)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings, net of debt establishment costs	100,000	724,100
Repayment of bank borrowings	(98,000)	(53,600)
Distribution paid	(286,654)	(270,367)
Decrease in restricted cash	2,450	287
Net cash flows from/(used in) financing activities	(282,204)	400,420
NET CHANGE IN CASH AND CASH EQUIVALENTS	(334)	4,525
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	59,094	48,214
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	58,760	52,739
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	58,760	52,739

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2015

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 and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange.

2.2 Basis of preparation

The condensed consolidated financial statements have been prepared on the historical cost basis, except for property, plant and equipment, investment properties and derivative financial instruments 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 where otherwise indicated.

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, 2014, 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, 2015.

Amendments to HKAS 19 <i>Annual Improvements</i> <i>2010-2012 Cycle</i>	<i>Defined Benefit Plans: Employee Contributions</i> Amendments to a number of HKFRSs
<i>Annual Improvements</i> <i>2011-2013 Cycle</i>	Amendments to a number of HKFRSs

The adoption of the new and revised HKFRSs has had no significant financial effects on these condensed consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

Operating segments of the Group are identified on the basis of internal reports on 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 these 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, the iclub Sheung Wan Hotel and the iclub Fortress Hill 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, 2015 are as follows:

	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Segment revenue			
Gross rental revenue	470,951	3,445	474,396
Gross hotel revenue	–	16,625	16,625
Total	<u>470,951</u>	<u>20,070</u>	<u>491,021</u>
Segment results	<u>464,380</u>	<u>11,510</u>	475,890
Fair value changes on investment properties	(1,638,406)	7,000	(1,631,406)
Depreciation	–	(4,347)	(4,347)
Interest and other income			713
REIT Manager fees			(50,655)
Trust, professional and other expenses			(5,884)
Finance costs - excluding distribution to Unitholders			<u>(107,222)</u>
Loss before tax and distribution to Unitholders			<u>(1,322,911)</u>

The operating segments of the Group for the six months ended 30th June, 2014 were as follows:

	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Segment revenue			
Gross rental revenue	445,504	2,324	447,828
Gross hotel revenue	—	21,482	21,482
Total	<u>445,504</u>	<u>23,806</u>	<u>469,310</u>
Segment results	<u>439,984</u>	<u>14,387</u>	454,371
Fair value changes on investment properties	64,964	9,000	73,964
Depreciation	—	(4,241)	(4,241)
Interest and other income			26,311
REIT Manager fees			(64,244)
Trust, professional and other expenses			(6,389)
Finance costs - excluding distribution to Unitholders			(103,770)
Profit before tax and distribution to Unitholders			<u>376,002</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, 2015, 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\$21,610,000,000 (31st December, 2014: HK\$23,230,000,000) and HK\$801,000,000 (31st December, 2014: HK\$889,000,000), 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, 2015		
	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Capital expenditures	<u>18,406</u>	<u>932</u>	<u>19,338</u>
	Six months ended 30th June, 2014		
	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Capital expenditures	<u>15,036</u>	<u>248</u>	<u>15,284</u>

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

Major customer information

Revenue of HK\$470,951,000 (six months ended 30th June, 2014: HK\$445,504,000) was derived from the lease of the 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 net rental and hotel income is as follows:

	Notes	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Gross rental revenue			
Rental income			
Initial Hotels	(a)	381,500	409,349
iclub Wan Chai Hotel - Non-hotel portions		3,445	2,324
iclub Sheung Wan Hotel	(b)	41,096	30,800
iclub Fortress Hill Hotel	(c)	42,918	—
Other income		5,437	5,355
		<u>474,396</u>	<u>447,828</u>
Property operating expenses		<u>(6,851)</u>	<u>(5,772)</u>
Net rental income		<u>467,545</u>	<u>442,056</u>
Gross hotel revenue			
Hotel operating expenses		<u>(8,280)</u>	<u>(9,167)</u>
Net hotel income		<u>8,345</u>	<u>12,315</u>
Net rental and hotel income		<u><u>475,890</u></u>	<u><u>454,371</u></u>

Notes:

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

	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Base Rent	381,500	371,500
Variable Rent	—	37,849
	<u>381,500</u>	<u>409,349</u>

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

	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Contractual cash rental income	41,040	30,800
Difference in accounting rental income and contractual cash rental income	56	—
	<u>41,096</u>	<u>30,800</u>

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

	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Contractual cash rental income	41,250	—
Difference in accounting rental income and contractual cash rental income	1,668	—
	<u>42,918</u>	<u>—</u>

5. INTEREST AND OTHER INCOME

	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Bank interest income	139	146
Interest income on deposits	—	25,717
Foreign exchange differences, net	574	448
	<u>713</u>	<u>26,311</u>

6. REIT MANAGER FEES

	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Base Fees	36,139	34,525
Variable Fees	14,516	13,919
Acquisition Fee	—	15,800
	<u>50,655</u>	<u>64,244</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;
- 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 and iclub Fortress Hill Hotel, which is payable annually; and
- an acquisition fee (the "Acquisition Fee") not exceeding 1% of the purchase price of the real estate acquired by Regal REIT (pro-rated, if applicable, to the proportion of Regal REIT's interest in the real estate acquired).

For the financial year 2015, the REIT Manger elected to receive its Base Fees and Variable Fees in the form of cash, details of which can be referred to an announcement of Regal REIT published on 9th December, 2014.

7. TRUST, PROFESSIONAL AND OTHER EXPENSES

	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Auditors' remuneration	806	930
Legal and other professional fees	2,368	3,006
Trustee fees	1,880	2,061
Other	830	392
	<u>5,884</u>	<u>6,389</u>

8. FINANCE COSTS – EXCLUDING DISTRIBUTION TO UNITHOLDERS

	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Total interest expenses on financial liabilities not at fair value through profit or loss:		
Interest expenses on interest-bearing bank borrowings wholly repayable within five years	56,128	50,971
Interest expenses on other borrowings wholly repayable within five years	40,447	40,452
Amortisation of debt establishment costs	8,925	8,880
	<u>105,500</u>	<u>100,303</u>
Fair value changes on derivative financial instruments		
– cash flow hedges (transfer from hedging reserve)	1,059	3,118
Other	663	349
	<u>107,222</u>	<u>103,770</u>

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30th June, 2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Charge for the period	37,596	38,274
Overprovision in prior years	(116)	—
Deferred (note 19)	16,462	18,119
	<hr/>	<hr/>
Total tax charge for the period	53,942	56,393
	<hr/> <hr/>	<hr/> <hr/>

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

The calculation of the basic loss per Unit attributable to Unitholders is based on the loss for the period before distribution to Unitholders of HK\$1,376,853,000 (six months ended 30th June, 2014: earnings of HK\$319,609,000) and the weighted average of 3,257,431,189 Units (six months ended 30th June, 2014: 3,257,431,189 Units) in issue during the period. The basic loss per Unit attributable to Unitholders for the period amounted to HK\$0.423 (six months ended 30th June, 2014: basic earnings per Unit of HK\$0.098).

The diluted loss per Unit attributable to Unitholders is the same as the basic loss per Unit attributable to Unitholders as there were no dilutive instruments in issue during the period (six months ended 30th June, 2014: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK\$'000
At 1st January, 2014	700,000
Additions	321
Deficit on revaluation	(790)
Depreciation provided during the year	(8,531)
	<hr/>
At 31st December, 2014 (audited) and 1st January, 2015	691,000
Additions	932
Deficit on revaluation	(91,585)
Depreciation provided during the period	(4,347)
	<hr/>
At 30th June, 2015 (unaudited)	<u>596,000</u>

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 Savills Valuation and Professional Services Limited ("Savills"), an independent property valuer and the principal valuer of Regal REIT, at HK\$596,000,000 as at 30th June, 2015. A revaluation deficit of HK\$91,585,000 resulting from the valuation as at 30th June, 2015 has been charged to other comprehensive income.

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

The iclub Wan Chai Hotel is situated in Hong Kong, is held under a long term lease and has been pledged to secure banking facilities granted to the Group (note 16).

The carrying amount of the Group's property, plant and equipment would have been HK\$417,347,000 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 60.

12. INVESTMENT PROPERTIES

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.

	Hotel properties HK\$'000	Commercial properties HK\$'000	Total HK\$'000
At 1st January, 2014	20,200,000	180,000	20,380,000
Additions	3,230,000	—	3,230,000
Fair value changes	(284,929)	18,000	(266,929)
Capital expenditures for the year	84,929	—	84,929
	<hr/>	<hr/>	<hr/>
At 31st December, 2014 (audited) and 1st January, 2015	23,230,000	198,000	23,428,000
Fair value changes	(1,638,406)	7,000	(1,631,406)
Capital expenditures for the period	18,406	—	18,406
	<hr/>	<hr/>	<hr/>
At 30th June, 2015 (unaudited)	<u>21,610,000</u>	<u>205,000</u>	<u>21,815,000</u>

The Group's investment properties were valued by Savills at HK\$21,815,000,000 as at 30th June, 2015. The investment properties are leased to a related company and other commercial tenants under operating leases, further details of which are included in note 22(a) to the condensed consolidated financial statements.

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

The Group's investment properties are situated in Hong Kong and are held under medium to long term leases. Three of the five Initial Hotels, namely Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel, together with iclub Sheung Wan Hotel and iclub Fortress Hill Hotel have been pledged to secure banking facilities granted to the Group (note 16).

Further particulars of the Group's investment properties are included on pages 59 to 60.

13. ACCOUNTS RECEIVABLE

	30th June, 2015 (unaudited) HK\$'000	31st December, 2014 (audited) HK\$'000
Difference in accounting rental income and contractual cash rental income	7,180	5,456
Variable Rent receivables	—	49,724
Other accounts receivable	1,349	1,277
	<u>8,529</u>	<u>56,457</u>

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' accounting policy.

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

The Variable Rent receivables as at 31st December, 2014 represented amounts due from a related company which were 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 with the receivables.

14. RESTRICTED CASH

The restricted cash of the Group was restricted for utilisation mainly for the purposes of servicing finance costs and repayments on certain interest-bearing bank borrowings, funding the FF&E Reserve for use in the Initial Hotels and iclub Wan Chai Hotel - Hotel portion, and deposits from certain tenants in respect of iclub Wan Chai Hotel - Non-hotel portions.

15. ACCOUNTS PAYABLE

	30th June, 2015 (unaudited) HK\$'000	31st December, 2014 (audited) HK\$'000
Amounts due to related companies	39,780	93,917
Other accounts payable	1,158	375
	<u>40,938</u>	<u>94,292</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 due within 3 months.

16. INTEREST-BEARING BANK BORROWINGS

	30th June, 2015 (unaudited) HK\$'000	31st December, 2014 (audited) HK\$'000
Interest-bearing bank borrowings	6,297,000	6,295,000
Debt establishment costs	(53,168)	(61,261)
	<u>6,243,832</u>	<u>6,233,739</u>
Portion classified as current liabilities	(65,000)	(63,000)
	<u>6,178,832</u>	<u>6,170,739</u>
Non-current portion	65,000	63,000
Analysed into bank loans repayable:		
Within one year	65,000	63,000
In the third to fifth years, inclusive	6,178,832	6,170,739
	<u>6,243,832</u>	<u>6,233,739</u>

The agreement for term loan facilities of HK\$4,500.0 million and a revolving loan facility of up to HK\$300.0 million (the "2013 IH Facilities") was entered into on 23rd July, 2013 by Regal REIT, through its wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, for a term of five years to July 2018, and is secured by three of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel. As at 30th June, 2015, the outstanding amount on the 2013 IH Facilities was HK\$4,500.0 million comprised solely of the full amount of the term loan facilities. On 23rd July, 2015, Regal REIT cancelled the HK\$300.0 million revolving loan facility under the 2013 IH Facilities as there are other unutilised revolving loan facilities available which bear lower rates of interest. The Group entered into interest rate swap arrangements to hedge against interest rate exposure for the term loan facilities for a notional amount of HK\$3.0 billion, details of which are set out in note 18.

As disclosed in 2014 annual report of Regal REIT, on 22nd December, 2014, a term loan facility agreement for a principal amount of HK\$440.0 million (the "2014 WC Facility"), which is secured by the iclub Wan Chai Hotel, was entered into for a term of five years to December 2019. The 2014 WC Facility was fully drawn with the proceeds being applied mainly for the repayment of the previous term loan facility entered into during 2012. As at 30th June, 2015, the outstanding amount on the 2014 WC Facility was HK\$440.0 million.

On 10th February, 2014, Regal REIT, through its wholly-owned subsidiary, Tristan Limited, arranged for 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"), which is secured by the iclub Sheung Wan Hotel. The 2014 SW Facilities have a term of five years to February 2019. As at 30th June, 2015, the utilised 2014 SW Facilities were comprised of the full term loan amount of HK\$632.0 million only.

On 28th July, 2014, Regal REIT, through its wholly-owned subsidiary, Wise Decade Investments Limited, arranged for 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"), which is secured by the iclub Fortress Hill Hotel. The 2014 FH Facilities have a term of five years to July 2019. As at 30th June, 2015, the utilised 2014 FH Facilities were comprised of the full term loan amount of HK\$660.0 million and part of the revolving loan facility amounting HK\$65.0 million.

As at 30th June, 2015, the outstanding loan facilities bear interest at the Hong Kong Interbank Offered Rates plus an interest margin ranging from 1.4% per annum to 1.62% per annum (31st December, 2014: ranging from 1.4% per annum to 1.62% per annum).

Bank borrowings under the 2013 IH Facilities, the 2014 WC Facility, the 2014 SW Facilities and the 2014 FH Facilities 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.

17. OTHER BORROWINGS

	30th June, 2015 (unaudited) HK\$'000	31st December, 2014 (audited) HK\$'000
Other borrowings repayable in the third to fifth years, inclusive, at nominal amount	1,937,950	1,938,550
Discount and issue costs	(10,164)	(11,946)
	<u>1,927,786</u>	<u>1,926,604</u>

Subsequent to the establishment and listing of the US\$1.0 billion medium term note 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.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	Liabilities	
	30th June, 2015 (unaudited) HK\$'000	31st December, 2014 (audited) HK\$'000
Interest rate swaps - cash flow hedges	—	2,024
Portion classified as current liabilities	—	(2,024)
Non-current portion	<u>—</u>	<u>—</u>

The Group used interest rate swaps to minimise its exposure to movements in interest rates in relation to a certain portion of its floating rate term loans. As at 31st December, 2014, the interest rate swaps had an aggregate amount of HK\$3.0 billion (note 16) with the fixed swap interest rates ranging from 0.355% per annum to 0.483% per annum. These interest rate swaps expired on 9th March, 2015.

19. DEFERRED TAX

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

	Fair value adjustments arising from revaluation of property, plant and equipment HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
Gross deferred tax assets/(liabilities) at 1st January, 2014	(45,403)	(364,502)	6,137	(403,768)
Deferred tax credited to other comprehensive income during the year	131	—	—	131
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year	454	(52,095)	5,212	(46,429)
Gross deferred tax assets/(liabilities) at 31st December, 2014 (audited)	<u>(44,818)</u>	<u>(416,597)</u>	<u>11,349</u>	<u>(450,066)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2015	(44,818)	(416,597)	11,349	(450,066)
Deferred tax credited to other comprehensive income during the period	15,112	—	—	15,112
Deferred tax credited/(charged) to the condensed consolidated statement of profit or loss during the period (note 9)	<u>229</u>	<u>(12,315)</u>	<u>(4,376)</u>	<u>(16,462)</u>
Gross deferred tax assets/(liabilities) at 30th June, 2015 (unaudited)	<u>(29,477)</u>	<u>(428,912)</u>	<u>6,973</u>	<u>(451,416)</u>

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

20. NUMBER OF UNITS IN ISSUE

	Number of Units	
	30th June, 2015 (unaudited)	31st December, 2014 (audited)
At beginning and end of the period/year	<u>3,257,431,189</u>	<u>3,257,431,189</u>

21. NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per Unit attributable to Unitholders is calculated by dividing the net assets attributable to Unitholders as at 30th June, 2015 of HK\$13,763,308,000 (31st December, 2014: HK\$15,502,570,000) by the number of Units in issue of 3,257,431,189 (31st December, 2014: 3,257,431,189) as at that date.

22. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties, as set out in note 12, and certain premises under operating lease arrangements. At 30th June, 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	30th June, 2015 (unaudited) HK\$'000	31st December, 2014 (audited) HK\$'000
Within one year	567,356	944,732
In the second to fifth years, inclusive	156,094	246,328
After five years	340	442
	<u>723,790</u>	<u>1,191,502</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, 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2015 (unaudited) HK\$'000	31st December, 2014 (audited) HK\$'000
Within one year	8,835	8,828
In the second to fifth years, inclusive	1,644	2,408
After five years	340	442
	<u>10,819</u>	<u>11,678</u>

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

During the six months ended 30th June, 2015, the total minimum lease payments under operating leases in respect of land and buildings included in property and hotel operating expenses of HK\$4,534,000 (six months ended 30th June, 2014: HK\$4,456,000) were charged to the condensed consolidated statement of profit or loss.

23. COMMITMENTS

In addition to the operating lease commitments detailed in note 22(b) above, the Group had the following capital commitments in respect of its properties at the end of the reporting period:

	30th June, 2015 (unaudited) HK\$'000	31st December, 2014 (audited) HK\$'000
Authorised and contracted for	299	—
Authorised, but not contracted for	95,323	110,642
	95,622	110,642

24. CONNECTED AND RELATED PARTY TRANSACTIONS

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

Connected/related parties	Relationship with the Group
DB Trustees (Hong Kong) Limited	The Trustee of Regal REIT
Deutsche Bank AG and its associates (the "Deutsche Bank Group")	Connected persons of the Trustee
Regal Hotels International Holdings Limited and other members of its group (collectively the "RHIHL Group")	Significant Unitholder of Regal REIT
Regal Portfolio Management Limited	The 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
P&R Holdings	A joint venture company held by the PHL Group and the RHIHL Group
Savills Valuation and Professional Services Limited	The principal valuer of the Group

(a) Transactions with connected/related parties:

	Notes	Six months ended 30th June, 2015 (unaudited) HK\$'000	Six months ended 30th June, 2014 (unaudited) HK\$'000
Contractual rental income received/receivable from the RHIHL Group	(i)	469,227	445,504
Hotel management fees charged by the RHIHL Group	(ii)	(772)	(1,078)
Marketing fees charged by the RHIHL Group	(iii)	(166)	(215)
Building management fees charged by the PHL Group	(iv)	(270)	(227)
Interest income on deposits	(v)	—	25,717
REIT Manager fees	(vi)	(50,655)	(64,244)
Trustee fees	(vii)	(1,880)	(2,061)
Valuation fees paid/payable to the principal valuer	(viii)	(415)	(645)
Acquisition of investment property and related current assets	(ix)	—	(1,581,115)

Notes:

- (i) The rental income earned by the Group was in accordance with the relevant agreements with respect to the Initial Hotels, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel.
- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) The interest income earned by the Group was in accordance with the relevant agreements with respect to the acquisitions of two hotels located in Sheung Wan and North Point.
- (vi) The REIT Manager is entitled to receive Base Fees, Variable Fees and Acquisition Fee, details of which, including the terms, are set out in note 6 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.
- (ix) The Group acquired an investment property and related current assets from P&R Holdings in accordance with a share purchase agreement.

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

	Notes	30th June, 2015 (unaudited) HK\$'000	31st December, 2014 (audited) HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables	(i)	—	49,724
Accounts payable to related companies	(ii)	(39,780)	(93,917)
Other payables		—	(693)
Amounts due to related companies	(ii)	(12,136)	(6,199)
Net amounts due from the PHL Group:			
Deposits paid	(ii)	1,212	1,212
Net amounts due to:			
The Trustee	(iii)	(939)	(961)
The Principal valuer	(iv)	(260)	(770)
Restricted and non-restricted bank balances with the Deutsche Bank Group	(v)	352	129

Notes:

- (i) Details of the balances are set out in note 13 to the condensed consolidated financial statements.
 - (ii) The amounts are unsecured, interest-free and repayable on demand/within one year.
 - (iii) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
 - (iv) The amount is repayable in accordance with the terms of the relevant agreement.
 - (v) The bank balances earn interest at prevailing market rates.
- (c) The RHIHL Group has guaranteed to pay all amounts from time to time owing or payable by the lessee of the Initial Hotels to the Group under the respective lease agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. In this connection, the RHIHL Group undertook to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK\$4 billion. Under the Market Rental Package for 2015, the RHIHL Group provided third party guarantee as security deposit for an amount of HK\$381.5 million (2014: HK\$371.5 million), which is equivalent to six months Base Rent for the year 2015, issued by a licensed bank in Hong Kong.
- (d) Under a deed of trademark 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 trademarks 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 and expiring on 31st December, 2020.
- (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 and expiring on 9th February, 2023.
- (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 and expiring on 27th July, 2023.

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of the financial assets and liabilities represent the amounts for which the instruments that could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Derivative financial instruments, including interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable input including the credit quality of counterparties and interest rate curves. The carrying amounts of interest rate swaps are the same as their fair values.

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

Fair value hierarchy

The Group did not have any financial assets measured at fair value as at 30th June, 2015 (31st December, 2014: Nil).

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

As at 31st December, 2014

	Fair value measurement using			Total (audited) HK\$'000
	Quoted prices in active markets (Level 1) (audited) HK\$'000	Significant observable inputs (Level 2) (audited) HK\$'000	Significant unobservable inputs (Level 3) (audited) HK\$'000	
Derivative financial instruments	—	2,024	—	2,024

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31st December, 2014: Nil).

REVIEW OF INTERIM RESULTS

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, 2015 to 30th June, 2015, in conjunction with Regal REIT's external auditors. The review report of the external auditors is set out on page 58 of this report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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

INTRODUCTION

We have reviewed the interim financial information set out on pages 28 to 56, which comprises the condensed consolidated statement of financial position of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries as at 30th June, 2015, 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

25th August, 2015

INVESTMENT/HOTEL PROPERTIES PORTFOLIO

As at 30th June, 2015

	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

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

