富豪酒店國際控股有限公司
**Regal Hotels International Holdings Limited**
(Incorporated in Bermuda with limited liability)
**(Stock Code: 78)**

# ANNOUNCEMENT OF 2018 INTERIM RESULTS

## FINANCIAL AND BUSINESS HIGHLIGHTS

| | Six months ended 30th June, 2018 | Six months ended 30th June, 2017 | % Change |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | |
| | HK$'M | HK$'M | |
| **Revenue** | **1,204.9** | 1,236.6 | **-2.6%** |
| **Gross profit** | **560.3** | 534.4 | **+4.8%** |
| **Operating profit before depreciation, finance costs and tax** | **597.3** | 726.2 | **-17.7%** |
| **Profit for the period attributable to equity holders of the parent** | **294.0** | 270.3 | **+8.8%** |
| **Basic earnings per ordinary share attributable to equity holders of the parent** | **HK26.36 cents**# | HK29.56 cents | **-10.8%** |
| **Interim dividend per ordinary share** | **HK5.0 cents** | HK4.5 cents | **+11.1%** |
| | **As at 30th June, 2018** | **As at 31st Dec., 2017** | |
| | (Unaudited) | (Unaudited) | |
| **Net asset value per ordinary share attributable to equity holders of the parent** | | | |
| **Book** | **HK$14.18** | HK$14.07 | **+0.8%** |
| **Adjusted**★ | **HK$23.44** | HK$22.56 | **+3.9%** |

# the basic earnings per ordinary share for the current period has been adjusted for the distribution related to the perpetual securities issued by the Group

★ compiled, for the purpose of reference, on an adjusted basis to restate the Group's hotel property portfolio in Hong Kong at its market value at 31st December, 2017 and 30th June, 2018, respectively, with the relevant deferred tax liabilities added back

- **The Group achieved for the period an unaudited consolidated profit attributable to shareholders of HK$294.0 million, an increase of 8.8% over the comparative profit attained for the same period in 2017.**
- **During the period under review, the Group's hotel and property businesses, the two core business segments of the Group, maintained steady performance.**
- **Operating profit before depreciation, finance costs and tax for the first half of 2018 amounted to HK$597.3 million (2017 – HK$726.2 million).**
- **Depreciation charges for the period amounted to HK$256.9 million (2017 – HK$252.7 million), most of which were related to the Group's hotel properties, which although not having an impact on cash flow, have nonetheless impacted on the Group's reported profit.**
- **As at 30th June, 2018, the adjusted net asset value per share of the Company amounted to HK$23.4, as compared to HK$14.2 per share based on book net assets.**
- **The combined average occupancy of the five Regal Hotels in Hong Kong during the period was 86.7%, up by 0.7 percentage point from 86.0% in the same period last year, while their combined average room rate has markedly increased by 10.5%, thereby achieving an overall enhancement of 11.4% in their combined average RevPAR. Aggregate net property income for these five hotels for the interim period amounted to HK$406.8 million, which represented an increase of 10.4% year-on-year.**
- **The iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel attained a combined average occupancy rate of 88.7% during the period, a slight drop of 0.8 percentage point from the level in the corresponding period in 2017, but their combined average room rate has substantially increased by 13.3% year-on-year, thereby translating into an improvement in their combined average RevPAR of 12.2% year-on-year.**
- **The development works for the new hotel within the SKYCITY Project at the Hong Kong International Airport, proposed to be named as Regala Skycity Hotel, are progressing as planned and scheduled to be completed in 2020.**
- **With the support of a steadily growing economy in China and the increasing integration of Hong Kong with the Mainland, the Group remains optimistic of the prospects of the hospitality industry in Hong Kong.**
- **Overall, the Directors are confident that the Group as a whole will continue to grow and prosper.**

## FINANCIAL RESULTS

For the six months ended 30th June, 2018, the Group achieved an unaudited consolidated profit attributable to shareholders of HK$294.0 million, an increase of 8.8% over the comparative profit of HK$270.3 million attained for the same period in 2017.

During the period under review, the Group's hotel and property businesses, the two core business segments of the Group, maintained steady performance. However, due to the relatively volatile conditions in the financial markets, the overall profits achieved for the Group's financial assets investments segment was substantially lower than that of the prior comparative period. Operating profit before depreciation, finance costs and tax for the first half of 2018 amounted to HK$597.3 million (2017 – HK$726.2 million). As a significant part of the Group's property business is conducted through P&R Holdings Limited, the 50/50 joint venture between the Group and Paliburg Holdings Limited (the immediate listed parent of the Company), the increased profit contribution from property business was reflected in the share of profits of a joint venture. Depreciation charges for the period amounted to HK$256.9 million (2017 – HK$252.7 million), most of which were related to the Group's hotel properties, which although not having an impact on cash flow, have nonetheless impacted on the Group's reported profit.

The Group has nine hotel properties operating in Hong Kong, which are all owned through Regal Real Estate Investment Trust, the listed subsidiary of the Company. With the exception of the iclub Wan Chai Hotel which is self-operated by Regal REIT, the five initial Regal Hotels and the three other iclub Hotels are leased by Regal REIT to a wholly owned subsidiary of the Group for hotel operations. In compliance with the prevailing accounting standards, all these hotel properties are stated in the Group's consolidated financial statements as property, plant and equipment and subject to depreciation charges. Consequently, their carrying values in the Group's consolidated financial statements are substantially below their market values. If all such hotel properties were to be stated at their independent professional valuations as at 30th June, 2018, the adjusted net asset value per share of the Company would amount to HK$23.4, as compared to HK$14.2 per share based on book net assets. Shareholders could refer to the paragraph headed "Assets Value" in the section headed "Management Discussion and Analysis" in this announcement on the information regarding the adjusted net asset value of the Company.

## BUSINESS OVERVIEW

### HOTELS

#### MARKET OVERVIEW

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

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

According to the information published by the Hong Kong Tourism Board, the average hotel room occupancy level for all the surveyed hotels under different categories in Hong Kong for the half year ended 30th June increased from 87% in 2017 to 91% in 2018, while the average achieved room rate improved by 8.1%, resulting in an increase in the Revenue per Available Room (RevPAR) of 13.0% year-on-year.

## HOTEL OWNERSHIP

The Group is developing, through a wholly owned subsidiary of the Company, a new hotel within the SKYCITY Project at the Hong Kong International Airport under an agreement for sublease from the Airport Authority. The development works for this new hotel, proposed to be named as Regala Skycity Hotel, are progressing as planned and scheduled to be completed in 2020.

The Group wholly owns a hotel property in Barcelona, Spain, which was formerly known as the La Mola Hotel & Conference Centre. This hotel property has been leased to an independent third party in 2017 and is now operating as Campus La Mola. The lease agreement commenced in September 2017 and is yielding satisfactory rentals.

## REGAL REAL ESTATE INVESTMENT TRUST

The Group held 74.6% of the outstanding units of Regal REIT as at 30th June, 2018 and Regal Portfolio Management Limited, a wholly owned subsidiary of the Company, acts as the REIT Manager.

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

As mentioned above, Regal REIT now owns a total of nine operating hotels in Hong Kong, including the five initial Regal Hotels, namely, the Regal Airport Hotel, the Regal Hongkong

Hotel, the Regal Kowloon Hotel, the Regal Oriental Hotel and the Regal Riverside Hotel; and four iclub Hotels, which are, respectively, the iclub Wan Chai Hotel, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the latest iclub Ma Tau Wai Hotel. With the exception of the iclub Wan Chai Hotel, all the other hotels are under leases by Regal REIT to a wholly owned subsidiary of the Company for hotel operations. Details of the business performance of these eight hotels during the period under review are reported in the sub-section headed "Hotel Operations" below.

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

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

**HOTEL OPERATIONS**

Favour Link International Limited, a wholly owned subsidiary of the Company, is the lessee operating the eight hotels under leases from Regal REIT.

The combined average occupancy of the five initial Regal Hotels in Hong Kong, which operate as full-service hotels under the "Regal" brand name, during the interim period was

86.7%, up by 0.7 percentage point from 86.0% in the same period last year, while their combined average room rate has markedly increased by 10.5%, thereby achieving an overall enhancement of 11.4% in their combined average RevPAR. Aggregate net property income for these five hotels for the interim period amounted to HK$406.8 million, which represented an increase of 10.4% over the HK$368.6 million for the same period in 2017. As the aggregate net property income was above the pro-rated base rent of HK$375.5 million, variable rent of HK$15.7 million would be payable to Regal REIT.

To meet different market demands, the iclub Hotels is a new line of hotels developed by the Group, which are typically positioned as upscale select-service hotels, with contemporary designs and stylish décors, and equipped with tech-savvy facilities.

The leases for the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel are now also operating on the basis of annually determined market rentals. Their base rents for 2018, as determined by an independent professional property valuer, were fixed at HK$42.0 million and HK$42.4 million, respectively. During the interim period, these two iclub Hotels attained a combined average occupancy rate of 88.7%, a slight drop of 0.8 percentage point from the level in the corresponding period in 2017, but their combined average room rate has substantially increased by 13.3% year-on-year, thereby translating into an improvement of 12.2% year-on-year in their combined average RevPAR. The net property income of the iclub Sheung Wan Hotel for the interim period was above the pro-rated base rent of HK$21.0 million and, based on 50% sharing, variable rent of HK$1.1 million would be payable to Regal REIT. Although the net property income for the iclub Fortress Hill Hotel for the interim period was below the base rent, the operating performance of this hotel has been continually improving. On the other hand, the iclub Ma Tau Wai Hotel was leased for an initial term of 5 years from September 2017, with escalating fixed rentals at an average yield of 4.5% per annum. Since its soft opening in May 2017, the business of iclub Ma Tau Wai Hotel has been building up gradually and the performance attained so far can be considered as satisfactory for a new start up hotel.

## HOTEL MANAGEMENT

Regal Hotels International Limited, the wholly owned management arm of the Group, is the hotel manager providing services to all the nine Regal and iclub Hotels presently operating in Hong Kong. There will be three more hotels coming on stream in Hong Kong and to be managed by the Group. They are, respectively, the iclub Mong Kok Hotel to be completed later this year, the iclub Sheung Wan II Hotel in 2019 and the Regala Skycity Hotel in 2020.

In Mainland China, the Group is managing a total of eight operating Regal Hotels, including four in Shanghai, two in Dezhou, one in Xi'an and one in Foshan. The Group is also managing one hotel in Zhengzhou which is operating under the iclub by Regal brand. Three other hotels also to be managed by the Group are under development, which are separately located in Chengdu, Jiangmen and Kunshan.

The hotel manager continues to exercise strenuous efforts to promote the "Regal" and "iclub" brand names and to strengthen the Group's marketing and reservation networks on the internet and other platforms.

## PROPERTIES

During the period under review, property prices in Hong Kong have been rising continuously in all market segments. The residential segment remained robust and, according to the data released by the Rating and Valuation Department, the price index of privately owned residence in Hong Kong has continued to rally for the 27th consecutive month up to June 2018. The office segment was also very active, as evidenced by the two large scale en bloc office towers transactions in Central and Island East.

The Group's property development business has principally been undertaken through the P&R Holdings joint venture since its establishment in 2011. Pending the completion and disposal by P&R Holdings of some of its property projects, the Group has also taken on through its wholly owned subsidiaries property development business in recent years.

As mentioned before, apart from the SKYCITY hotel development at the Hong Kong International Airport, the Group also acquired, through its wholly owned subsidiaries, certain development properties situated at Queen’s Road West, Hong Kong, which are intended for a commercial/residential development. In the meantime, the Group continues to retain a total of 14 garden houses in Regalia Bay, Stanley, some of which will be disposed of if the prices offered are favourable.

Of the various property projects undertaken by P&R Holdings, it might be worthwhile mentioning that the “We Go MALL” at Ma On Shan has been completed and soft opened in May 2018. This shopping mall development is yielding satisfactory rentals and will be retained for investment income. Meanwhile, the large scale residential project at Kau To, now named as “Mount Regalia”, has been substantially completed, pending the issue of the occupation permit. The sale programme for this residential project is planned to be launched in stages commencing from the fourth quarter of this year.

Further detailed information on the Group’s development projects and properties, as well as those undertaken by P&R Holdings and its listed subsidiary, Cosmopolitan International Holdings Limited, and on the Group’s financial assets and other investments are contained in the section headed “Management Discussion and Analysis” in this announcement

## AIRCRAFT OWNERSHIP AND LEASING

In April 2018, the Group completed the process for the acquisition of two mid-life Airbus A320-232 passenger aircraft, which are under operating leases to a major international airline operator based in Europe. In May 2018, the Group disposed of two Embraer ERJ145 aircraft to an independent third party purchaser. Subsequent to the half year end date, the Group further completed the disposals of one Airbus A321-211 and two Embraer ERJ145 aircraft to two other independent buyers. These aircraft recently disposed of were pending sale after expiry or termination of the leases and these sale transactions have on the whole generated satisfactory profits to the Group.

At present, the Group owns a fleet of 10 aircraft, of which 3 aircraft are on operating leases, 6 aircraft on finance leases and one that is pending re-lease or disposal. The Group still holds a reasonably positive view in the long-term growth of the aviation industry and will continue to review new acquisitions if they could offer attractive returns.

## OUTLOOK

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

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

Over the years, the Group has built up a strong financial base and a sizable asset portfolio that is appropriately distributed among hotels, properties and other investments. In particular, some of the large scale development projects undertaken by P&R Holdings will soon be completed and should generate substantial profit contribution to the Group upon their gradual disposals. Overall, the Directors are confident that the Group as a whole will continue to grow and prosper.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group's significant investments and principal business activities mainly comprise hotel ownership business undertaken through Regal REIT, hotel operation and management businesses, asset management of Regal REIT, property development and investment, including those undertaken through the joint venture in P&R Holdings, aircraft ownership and leasing business and other investments including financial assets investments.

The performance of the Group's hotel, property and other investment businesses as well as that of Regal REIT during the period under review, the commentary on the hotel and property sectors and the changes in general market conditions and the potential impact on their operating performances and future prospects are contained in the above sections headed "Financial Results", "Business Overview" and "Outlook" as well as in this sub-section.

The Group has no immediate plans for material investments or capital assets, other than those as disclosed in the above sections headed "Business Overview" and "Outlook" and in this sub-section.

A brief review on the development projects and properties of the Group in Hong Kong, as well as those undertaken by P&R Holdings and its listed subsidiary, Cosmopolitan, and on the Group's financial assets and other investment is set out below.

*New hotel project intended to be named as "Regala Skycity Hotel" at the Hong Kong International Airport*
In February 2017, a wholly owned subsidiary of Company was awarded by the Airport Authority in Hong Kong the development right for a new hotel project at the Hong Kong International Airport.

The hotel project has a site area of approximately 6,650 square metres (71,580 square feet) and permissible gross floor area of 33,700 square metres (362,750 square feet) and is situated at a site surrounded by Terminal 2 of the Hong Kong International Airport, the Asia World-Expo and SkyPier. The hotel project is also the first phase of the mega SKYCITY Project by the Airport Authority, which contains large scale retail and offices, dining and entertainment facilities.

The new project is planned for the development of a 13-storey (including one basement floor) hotel with 1,210 guestrooms and suites as well as extensive banquet, meeting and food and beverage facilities. The hotel is intended to be named as the Regala Skycity Hotel, which will be operated as a full service hotel targeting at commercial, airline related, leisure and meeting businesses. The foundation works have been substantially completed and the superstructure works are scheduled to be commenced in September this year. The new hotel is anticipated to be completed in 2020.

*Nos.150-158 and 160-162 Queen's Road West, Hong Kong*

The properties located at Nos. 150-158 Queen's Road West, Hong Kong were acquired through private treaty in March 2017, which have an aggregate site area of about 480 square metres (5,178 square feet) and are planned for a commercial/residential development. The Group has since further acquired units with more than 85% of the total undivided shares in the adjoining properties at Nos.160-162 Queen's Road West, which have an aggregate site area of about 187 square metres (2,012 square feet). The two properties are intended to be consolidated for development and the combined site will have a total aggregate site area of about 667 square metres (7,190 square feet). The process for the acquisition of the remaining units at Nos.160-162 Queen's Road West is progressing.

*Regalia Bay, 88 Wong Ma Kok Road, Stanley, Hong Kong*

A total of 14 garden houses in Regalia Bay with a total gross area of about 6,320 square metres (68,000 square feet) are still being retained, 8 of which are held as investment properties, 3 as held for sale and 3 as fixed assets. The Group will continue to dispose of some of these houses if the price offered is considered satisfactory.

**JOINT VENTURE – P&R HOLDINGS LIMITED**

P&R Holdings is a 50:50 owned joint venture established with Paliburg, with capital contributions provided by the Company and Paliburg on a pro-rata basis in accordance with their respective shareholdings in P&R Holdings. P&R Holdings' business scope encompasses the development of real estate projects for sale and/or leasing, the undertaking of related investment and financing activities, and the acquisition or making of any investments (directly or indirectly) in the financial assets of or interests in, or extending loans to, any private, public or listed corporations or undertakings that have interests in real estate projects or other financial activities where the underlying assets or security comprise real estate properties.

Further information relating to the property development projects being undertaken and properties owned by the P&R Holdings group in Hong Kong is set out below:

Apart from the Shun Ning Road development project in Sham Shui Po, Kowloon and the Anchor Street/Fuk Tsun Street development project in Tai Kok Tsui, Kowloon, both of which are being undertaken pursuant to the development contracts awarded by the Urban Renewal Authority of Hong Kong, all of the other ongoing development projects and properties are presently wholly owned by P&R Holdings group.

*Domus and Casa Regalia at Nos.65-89 Tan Kwai Tsuen Road, Yuen Long, New Territories*
This residential project has a site area of approximately 11,192 square metres (120,470 square feet) and provides a total of 170 units, comprising 36 luxurious garden houses and a low-rise apartment block with 134 units, having aggregate gross floor area of approximately 11,192 square metres (120,470 square feet). The occupation permit for the project was issued in November 2015 and the certificate of compliance was obtained in April 2016.

With the exception of 1 unit, all the other 133 units in the apartment block, named Domus, had been sold in 2015. The sale programme for the garden houses, named Casa Regalia, which constitute the main component of the development, was first launched in May 2016 and, up to date, a total of 24 houses have been sold or contracted to be sold. While the remaining houses will continue to be disposed of on a gradual basis, some of them may in the meantime be retained for rental income.

*We Go MALL at No.16 Po Tai Street, Ma On Shan, Sha Tin, New Territories*

This development site has a site area of 5,090 square metres (54,788 square feet) and a maximum permissible gross floor area of 15,270 square metres (164,364 square feet). The site has been developed into a shopping mall with 5 storeys above ground level and 1 storey of basement floor. The occupation permit for the project was issued in September 2017. Since its soft opening in May this year, the "We Go MALL" has been well received and most of its lettable space has been leased out or occupied. This shopping mall development is yielding satisfactory rentals and will be retained for investment income.

*The Ascent at No.83 Shun Ning Road, Sham Shui Po, Kowloon*

This is a joint venture project awarded by the Urban Renewal Authority of Hong Kong through a tender process in March 2014. The land has a site area of 824.9 square metres (8,879 square feet) and is being developed into a 28-storey commercial/residential building (including 1 basement floor) with total gross floor area of 7,159 square metres (77,059 square feet), providing 157 residential units, 2 storeys of shops and 1 storey of basement carparks. The occupation permit for the project was issued in March 2018 and the certificate of compliance was recently obtained in July 2018. The presale of the residential units in this development was launched in July 2016 and, up to date, 155 of the total 157 residential units have been contracted to be sold. The units sold are being handed over to the respective purchasers and the profits to be derived therefrom will be accounted for in the second half of 2018. The sale programme for the commercial units is planned to be launched shortly.

*Sha Tin Town Lot No.578, Area 56A, Kau To, Sha Tin, New Territories to be named as "Mount Regalia"*

The project has a site area of 17,476 square metres (188,100 square feet) and is being developed into a luxury residential complex comprising 7 mid-rise apartment blocks with 136 units, 24 detached garden houses and 197 carparking spaces, with aggregate gross floor area of approximately 32,474 square metres (349,547 square feet). The development works of the project have been substantially completed and the occupation permit is expected to be issued in September this year. The sale programme is planned to be launched in stages commencing from the fourth quarter of this year.

*iclub Mong Kok Hotel at Anchor Street/Fuk Tsun Street, Tai Kok Tsui, Kowloon*

This is a hotel development project also awarded by the Urban Renewal Authority of Hong Kong through a tender process in June 2015, which has a site area of 725.5 square metres (7,809 square feet). The project has total permissible gross floor area of approximately 6,529 square metres (70,278 square feet) and covered floor area of approximately 9,355 square metres (100,697 square feet) and is being developed into a 20-storey hotel building comprising about 288 guestrooms, with ancillary accommodation. The superstructure works have been completed and the occupation permit for the project is expected to be obtained in the fourth quarter of 2018.

*Nos.5-7 Bonham Strand West and Nos.169-171 Wing Lok Street, Sheung Wan, intended to be named as "iclub Sheung Wan II Hotel"*

The project has an aggregate site area of approximately 345 square metres (3,710 square feet) and is being developed into a hotel with 98 guestrooms and suites, with total gross floor area of approximately 5,236 square metres (56,360 square feet) and covered floor area of approximately 6,420 square metres (69,120 square feet). After extensive periods of delay to resolve the technical difficulties encountered on the substructure works, the superstructure works are progressing steadily and the project is presently anticipated to be completed in 2019.

## COSMOPOLITAN INTERNATIONAL HOLDINGS LIMITED

Cosmopolitan is a listed subsidiary of P&R Holdings. Further information relating to the property projects of the Cosmopolitan group in the People's Republic of China, all of which are wholly owned, is set out below:

### Property Development

*Chengdu Project – Regal Cosmopolitan City*

Located in the Xindu District in Chengdu, Sichuan Province, the project is a mixed use development consisting of residential, hotel, commercial and office components, with an overall total gross floor area of approximately 495,000 square metres (5,330,000 square feet).

There are total 1,296 residential units comprised in the first and second stages of the Chengdu project. Most of these residential units have been sold and handed over to the purchasers before the end of 2017 and the profits therefrom already accounted for in the prior year. The sale process of the remaining units has continued during the period and, up to date, the number of units still available for sale is insignificant.

While the business remodeling and corresponding interior design works for the hotel are ongoing, the mechanical and electrical installation works are also in progress. The hotel is now scheduled to open in phases from the second half of 2019. In the meantime, the substructure and superstructure works of the remaining ten residential towers in the third stage of the development have commenced and the presale programme of these residential units is planned to be launched in the fourth quarter of 2018.

The detailed design of the other components within the development, comprising primarily commercial and office spaces, has commenced and the associated construction works are expected to commence in early 2019.

*Tianjin Project – Regal Renaissance*

Located in the Hedong District in Tianjin, this project is a mixed use development comprising residential, commercial and office components with total gross floor area of about 145,000 square metres (1,561,000 square feet).

The construction works of the four residential towers, the commercial complex and the associated car parking spaces have been completed. Of the total 512 units comprised in the four residential towers, 484 units together with 202 residential car parking spaces have been sold to date. Most of the residential units and car parking spaces sold have been handed over to the individual purchasers before the half year end date and the profits therefrom accounted for in the results for the period under review. The sale of the commercial complex, comprising mainly shops of about 19,000 square metres (205,000 square feet), is continuing steadily.

The superstructure works of the two office towers have been temporarily suspended due to the tightened government planning controls. The Cosmopolitan group is actively conducting negotiations with the local government to resume the superstructure works as soon as practicable and the recent response from the local government to resolve the issue is positive.

*Xinjiang Project*

This is a re-forestation and land grant project for a land parcel with site area of about 7,600 mu in accordance with the relevant laws and policies in Urumqi, Xinjiang Uygur Autonomous Region. The Cosmopolitan group has re-forested an aggregate area of about 4,300 mu within the project site and in accordance with the relevant government policies of Urumqi, a parcel of land with an area of about 1,843 mu (equivalent to approximately 1,228,700 square metres) within the project site will be available for real estate development after the requisite inspection, land grant listing and tender procedures are completed.

The Cosmopolitan group has completed the site survey on the parcels of land within the project site which have been illegally occupied by trespassers and has commenced communications with the relevant government authority to initiate appropriate measures to settle the land disputes. Based on the legal advice obtained, the legitimate interests of the Cosmopolitan group in this re-forestation and land grant contract remain valid and effective.

### FINANCIAL ASSETS AND OTHER INVESTMENTS

The Group maintains a sizable investment portfolio comprising listed securities, investment funds, bonds as well as treasury and yield enhancement products. Due to the relatively volatile conditions in the financial markets, the overall profit achieved in the financial assets investments segment for the period was substantially lower than that of the corresponding period last year.

## FINANCIAL REVIEW

### ASSETS VALUE

The Group's hotel properties in Hong Kong are owned by Regal REIT and, with the exception of the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the iclub Ma Tau Wai Hotel, were stated in the financial statements at their fair values as at 23rd July, 2010 when Regal REIT became a subsidiary of the Group, plus subsequent capital additions and deducting accumulated depreciation. The market valuations of these hotel properties have since appreciated substantially but have not been reflected in the Group's financial statements. Moreover, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the iclub Ma Tau Wai Hotel were stated in the Group's financial statements at their fair values at the time of acquisition net of the unrealised gain attributable to the Group and are also subject to depreciation. For the purpose of providing supplementary information, if the Group's entire hotel property portfolio in Hong Kong is restated in the condensed consolidated financial statements at its market value as at 30th June, 2018, the unaudited adjusted net asset value of the ordinary shares of the Company would be HK$23.4 per share, computed as follows:

| | As at 30th June, 2018 | |
|---|---|---|
| | **HK$'M** | **HK$ per ordinary share** |
| **Book net assets attributable to equity holders of the parent** | **12,749.3** | **14.18** |
| **Adjustment to restate the Group's hotel property portfolio in Hong Kong at its market value and add back the relevant deferred tax liabilities** | **8,318.6** | **9.26** |
| **Unaudited adjusted net assets attributable to equity holders of the parent** | **21,067.9** | **23.44** |

## CAPITAL RESOURCES AND FUNDING

### Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. Cash balances are mostly placed on bank deposits, and treasury and yield enhancement products are deployed when circumstances are considered to be appropriate.

The Group's banking facilities are mostly denominated in Hong Kong dollar with interest primarily determined with reference to interbank offered rates, while its senior unsecured notes are denominated in US dollar with fixed coupon interest rates. The use of hedging instruments for interest rate purposes to cater to business and operational needs is kept under review by the Group's management from time to time. As the Hong Kong dollar is pegged to the US dollar, the exchange risks are considered to be insignificant and no currency hedging has been deployed. As regards the Group's overseas investments which are based in currencies other than US dollar and Hong Kong dollar, the Group will consider hedging part or all of the investment amounts into US dollar or Hong Kong dollar to contain the Group's exposure to currency fluctuation.

**Cash Flows**

During the period under review, there were net cash flows used in operating activities of HK$490.9 million (2017 – HK$534.8 million). Net interest payment for the period amounted to HK$127.7 million (2017 – HK$117.6 million).

**Borrowings and Gearing**

As at 30th June, 2018, the Group had cash and bank balances and deposits of HK$2,591.4 million (31st December, 2017 – HK$3,457.9 million) and the Group's borrowings net of cash and bank balances and deposits amounted to HK$12,368.7 million (31st December, 2017 – HK$10,925.2 million).

As at 30th June, 2018, the gearing ratio of the Group was 38.9% (31st December, 2017 – 35.0%), representing the Group's borrowings net of cash and bank balances and deposits of HK$12,368.7 million (31st December, 2017 – HK$10,925.2 million), as compared to the total assets of the Group of HK$31,825.9 million (31st December, 2017 – HK$31,248.5 million).

On the basis of the adjusted total assets as at 30th June, 2018 of HK$42,603.7 million (31st December, 2017 – HK$41,034.7 million) with the Group's hotel portfolio in Hong Kong restated at its market value on the basis presented above, the gearing ratio would be 29.0% (31st December, 2017 – 26.6%).

Details of the maturity profile of the borrowings of the Group as of 30th June, 2018 are shown in the condensed consolidated financial statements contained in the interim report for the six months ended 30th June, 2018 of the Company ("Interim Financial Statements") to be published on or before 30th September, 2018.

**Pledge of Assets**

As at 30th June, 2018, certain of the Group's property, plant and equipment, investment properties, properties held for sale, financial assets at fair value through profit or loss, financial assets at amortised cost, time deposits and bank balances in the total amount of HK$21,349.2 million were pledged to secure banking facilities granted to the Group as well as bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT.

As at 31st December, 2017, certain of the Group's property, plant and equipment, investment properties, properties held for sale, available-for-sale investments, financial assets at fair value through profit or loss, held-to-maturity investments, time deposits and bank balances in the total amount of HK$17,839.9 million were pledged to secure banking facilities granted to the Group as well as bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT.

**Capital Commitments**

Details of the capital commitments of the Group as at 30th June, 2018 are shown in the Interim Financial Statements.

**Contingent Liabilities**

As at 30th June, 2018, the Group had contingent liabilities not provided for in the financial statements for corporate guarantees provided in respect of attributable share of banking facilities granted to subsidiaries of a joint venture in the amount of HK$2,446.8 million (31st December, 2017 – HK$2,446.8 million), of which HK$2,131.9 million (31st December, 2017 – HK$1,841.0 million) was utilised.

In addition, guarantee has been given to a bank by the Group for a performance bond issued by the bank in relation to a property development contract undertaken by the Group amounting to HK$15.0 million (31st December, 2017 – HK$15.0 million).

## DIVIDEND

The Directors have declared the payment of an interim dividend of HK5.0 cents (2017 – HK4.5 cents) per ordinary share for the financial year ending 31st December, 2018, absorbing an amount of approximately HK$44.9 million (2017 – HK$40.4 million) and will be payable to holders of ordinary shares on the Register of Ordinary Shareholders on 11th October, 2018.

## CLOSURE OF REGISTER

The Register of Ordinary Shareholders will be closed from Tuesday, 9th October, 2018 to Thursday, 11th October, 2018, both days inclusive, during which period no transfers of ordinary shares will be effected. In order to qualify for the interim dividend declared, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Monday, 8th October, 2018. The relevant dividend warrants are expected to be despatched on or about 25th October, 2018.

## HALF YEAR RESULTS

### Condensed Consolidated Statement of Profit or Loss

| | Six months ended 30th June, 2018 (Unaudited) HK$'M | Six months ended 30th June, 2017 (Unaudited) HK$'M |
|---|---|---|
| REVENUE (Notes 2 & 3) | **1,204.9** | 1,236.6 |
| Cost of sales | **(644.6)** | (702.2) |
| Gross profit | **560.3** | 534.4 |
| Other income and gain (Note 3) | **159.9** | 206.4 |
| Fair value gains on financial assets at fair value through profit or loss, net | **10.0** | 112.1 |
| Fair value gains on investment properties, net | **2.9** | 0.6 |
| Property selling and marketing expenses | **–** | (5.2) |
| Administrative expenses | **(135.8)** | (122.1) |
| OPERATING PROFIT BEFORE DEPRECIATION | **597.3** | 726.2 |
| Depreciation | **(256.9)** | (252.7) |
| OPERATING PROFIT (Notes 2 & 4) | **340.4** | 473.5 |
| Finance costs (Note 5) | **(175.7)** | (194.4) |
| Share of profits and losses of: | | |
| A joint venture | **149.5** | 29.3 |
| Associates | **0.3** | 6.7 |
| PROFIT BEFORE TAX | **314.5** | 315.1 |
| Income tax (Note 6) | **(13.5)** | (34.2) |
| PROFIT FOR THE PERIOD BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS | **301.0** | 280.9 |

**Condensed Consolidated Statement of Profit or Loss (Cont'd)**

| | Six months ended 30th June, 2018 (Unaudited) HK$'M | Six months ended 30th June, 2017 (Unaudited) HK$'M |
|---|---|---|
| Attributable to: | | |
| Equity holders of the parent | **294.0** | 270.3 |
| Non-controlling interests | **7.0** | 10.6 |
| | **301.0** | 280.9 |
| EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Note 8) | | |
| Basic and diluted | **HK26.36 cents** | HK29.56 cents |

**Condensed Consolidated Statement of Comprehensive Income**

| | Six months ended 30th June, 2018 (Unaudited) HK$'M | Six months ended 30th June, 2017 (Unaudited) HK$'M |
|---|---|---|
| PROFIT FOR THE PERIOD BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS | **301.0** | 280.9 |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | |
| Changes in fair value of available-for-sale investments | – | 11.5 |
| Exchange differences on translating foreign operations | **(5.8)** | 23.3 |
| Share of other comprehensive income/(loss) of: | | |
| A joint venture | **(25.9)** | 26.7 |
| An associate | **(0.1)** | – |
| Other comprehensive income/(loss) for the period | **(31.8)** | 61.5 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | **269.2** | 342.4 |
| Attributable to: | | |
| Equity holders of the parent | **262.2** | 331.7 |
| Non-controlling interests | **7.0** | 10.7 |
| | **269.2** | 342.4 |

**Condensed Consolidated Statement of Financial Position**

| | 30th June, 2018 (Unaudited) HK$'M | 31st December, 2017 (Audited) HK$'M |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | **18,612.2** | 18,566.9 |
| Investment properties | **1,146.4** | 1,144.7 |
| Properties under development | **822.1** | 762.8 |
| Investments in joint ventures | **3,284.0** | 3,030.8 |
| Investments in associates | **16.4** | 15.8 |
| Available-for-sale investments | **–** | 294.1 |
| Financial assets at fair value through profit or loss | **411.8** | 1.9 |
| Other loan | **1,062.0** | 1,062.0 |
| Debtors and deposits (Note 9) | **14.7** | 10.5 |
| Deferred tax assets | **54.2** | 51.7 |
| Total non-current assets | **25,423.8** | 24,941.2 |
| CURRENT ASSETS | | |
| Properties held for sale | **236.5** | 231.5 |
| Inventories | **28.9** | 28.9 |
| Aircraft held for sale | **70.6** | 18.4 |
| Debtors, deposits and prepayments (Note 9) | **357.3** | 263.4 |
| Finance lease receivables | **19.1** | 37.1 |
| Held-to-maturity investments | **–** | 167.9 |
| Financial assets at amortised cost | **213.0** | – |
| Financial assets at fair value through profit or loss | **2,795.7** | 2,030.5 |
| Other loan | **66.0** | 60.0 |
| Derivative financial instruments | **14.2** | – |
| Tax recoverable | **9.4** | 11.7 |
| Restricted cash | **72.7** | 67.7 |
| Pledged time deposits and bank balances | **230.8** | 550.4 |
| Time deposits | **1,418.1** | 1,681.4 |
| Cash and bank balances | **869.8** | 1,158.4 |
| Total current assets | **6,402.1** | 6,307.3 |

**Condensed Consolidated Statement of Financial Position (Cont'd)**

| | 30th June, 2018 (Unaudited) HK$'M | 31st December, 2017 (Audited) HK$'M |
|---|---|---|
| CURRENT LIABILITIES | | |
| Creditors, deposits received and accruals (Note 10) | **(418.9)** | (491.1) |
| Contract liabilities | **(9.3)** | – |
| Interest bearing bank borrowings | **(1,500.9)** | (1,347.5) |
| Other borrowings | **–** | (1,945.8) |
| Derivative financial instruments | **(0.3)** | (3.0) |
| Tax payable | **(53.5)** | (23.6) |
| Total current liabilities | **(1,982.9)** | (3,811.0) |
| NET CURRENT ASSETS | **4,419.2** | 2,496.3 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **29,843.0** | 27,437.5 |
| NON-CURRENT LIABILITIES | | |
| Creditors and deposits received (Note 10) | **(105.5)** | (104.0) |
| Interest bearing bank borrowings | **(10,730.9)** | (8,376.1) |
| Other borrowings | **(2,728.3)** | (2,713.7) |
| Deferred tax liabilities | **(901.5)** | (921.4) |
| Total non-current liabilities | **(14,466.2)** | (12,115.2) |
| Net assets | **15,376.8** | 15,322.3 |
| EQUITY | | |
| **Equity attributable to equity holders of the parent** | | |
| Issued capital | **89.9** | 89.9 |
| Reserves | **12,659.4** | 12,557.0 |
| | **12,749.3** | 12,646.9 |
| **Perpetual securities** | **1,732.9** | 1,732.9 |
| **Non-controlling interests** | **894.6** | 942.5 |
| Total equity | **15,376.8** | 15,322.3 |

Notes:

1. Accounting Policies

The condensed consolidated financial statements for the six months ended 30th June, 2018 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. 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 consolidated financial statements for the year ended 31st December, 2017, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the Group's annual periods beginning on or after 1st January, 2018.

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

Other than the impacts of HKFRS 9 and HKFRS 15 as explained below, the adoption of the above new and revised standards has had no significant financial effect on the Group's condensed consolidated financial statements.

The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position upon the adoption of HKFRS 9 and HKFRS 15 under the transition methods.

| | At 31st December, 2017 | Impact on initial application of HKFRS 9 | Impact on initial application of HKFRS 15 | At 1st January, 2018 |
|---|---|---|---|---|
| | **HK$'M** | **HK$'M** | **HK$'M** | **HK$'M** |
| Assets and liabilities | | | | |
| Available-for-sale investments | 294.1 | (294.1) | - | - |
| Financial assets at fair value through profit or loss (non-current) | 1.9 | 294.1 | - | 296.0 |
| Held-to-maturity investments | 167.9 | (167.9) | - | - |
| Financial assets at amortised cost | - | 167.9 | - | 167.9 |
| Creditors, deposits received and Accruals (current) | (491.1) | - | 6.9 | (484.2) |
| Contract liabilities | - | - | (6.9) | (6.9) |
| Equity | | | | |
| Available-for-sale investment revaluation reserve | (58.6) | 58.6 | - | - |
| Retained profits | (12,063.4) | (58.6) | - | (12,122.0) |

## Impact of HKFRS 9 *Financial Instruments*

HKFRS 9 replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1st January, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has applied HKFRS 9 retrospectively to items that existed at 1st January, 2018 in accordance with the transition requirements. The Group has elected not to adjust the comparative information for the period beginning on 1st January, 2017, which the comparative information was prepared under HKAS 39.

The impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(a) *Classification and measurement*

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets is as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's loans receivable, trade debtors, other financial assets included in debtors, deposits and prepayments, finance lease receivables, restricted cash, pledged time deposits and bank balances, time deposits, cash and bank balances and unlisted certificates of deposits.

Other financial assets are classified and subsequently measured, as follows:

- Financial assets at FVPL comprise derivative instruments, quoted equity instruments and unquoted equity and fund instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under HKAS 39, the Group's unquoted equity and fund instruments were classified as available-for-sale investments. Upon transition, the available-for-sale investment revaluation reserve relating to unquoted equity and fund instruments, which had been previously recognised under accumulated other comprehensive income, was reclassified to retained profits.

The assessment of the Group's business models was made as of the date of initial application, 1st January, 2018, and applied to those financial assets that were not derecognised before 1st January, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

(b) *Impairment*

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. Upon the adoption of HKFRS 9, the Group applied the simplified approach and recorded lifetime expected losses that were estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group applied the general approach and recorded twelve-month expected credit losses that were estimated based on the possible default events on its other receivables within the next twelve months. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

**Impact of HKFRS 15 *Revenue from Contracts with Customers***

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits as at 1st January, 2018. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1st January, 2018, thus the comparative figures have not been restated.

The impacts arising from the adoption of HKFRS 15 on the Group's condensed consolidated financial statements are summarised as follows:

*(a)* *Loyalty points programmes*

The Group's hotel operation segment operates loyalty points programmes which allow customers to accumulate points when they patronise the Group's hotels. The points can be redeemed for future spending in the hotels or other gifts. The Group concluded that under HKFRS 15, the loyalty points programmes give rise to a separate performance obligation because they provide a material right to the customer. The Group determined that the impacts upon the adoption of HKFRS 15 were not significant and thus, no adjustment was made to the opening balance of retained profits at 1st January, 2018. In addition, deferred liabilities on the loyalty points programmes were reclassified to contract liabilities as at 1st January, 2018.

2. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has six reportable operating segments as follows:

(a) the hotel operation and management and hotel ownership segment engages in hotel operations and the provision of hotel management services, and the ownership in hotel properties for rental income;

(b) the asset management segment engages in the provision of asset management services to Regal REIT;

(c) the property development and investment segment includes investments in properties for sale and for rental income, and the provision of property agency and management services;

(d) the financial assets investments segment engages in trading of financial assets at fair value through profit or loss and other financial assets investments;

(e) the aircraft ownership and leasing segment engages in the aircraft ownership and leasing for rental and interest income; and

(f) the others segment mainly comprises travel agency services, sale of food products, operation of restaurants, operation of security storage lounge, the provision of housekeeping services and development and distribution of multimedia entertainment and digital educational content and multi-platform social games.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that certain interest income, finance costs, head office and corporate gains and expenses are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present revenue and profit/(loss) information for the Group’s operating segments:

| | **Hotel operation and management and hotel ownership** | | **Asset management** | | **Property development and investment** | | **Financial assets investments** | | **Aircraft ownership and leasing** | | **Others** | | **Eliminations** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Six months ended 30th June,** | | **Six months ended 30th June,** | | **Six months ended 30th June,** | | **Six months ended 30th June,** | | **Six months ended 30th June,** | | **Six months ended 30th June,** | | **Six months ended 30th June,** | | **Six months ended 30th June,** | |
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** |
| | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** | **HK$’M** |
| Segment revenue: | | | | | | | | | | | | | | | | |
| Sales to external customers | 1,130.6 | 1,062.8 | - | - | 6.4 | 117.2 | 33.9 | 21.9 | 26.9 | 25.6 | 7.1 | 9.1 | - | - | 1,204.9 | 1,236.6 |
| Intersegment sales | 3.6 | 3.8 | 53.1 | 47.0 | 2.4 | 2.5 | - | - | - | - | 51.0 | 33.5 | (110.1) | (86.8) | - | - |
| Total | 1,134.2 | 1,066.6 | 53.1 | 47.0 | 8.8 | 119.7 | 33.9 | 21.9 | 26.9 | 25.6 | 58.1 | 42.6 | (110.1) | (86.8) | 1,204.9 | 1,236.6 |
| Segment results before depreciation | 450.2 | 496.4 | (5.3) | (6.2) | 114.9 | 105.1 | 49.9 | 143.4 | 28.5 | 23.0 | 0.2 | (1.3) | - | - | 638.4 | 760.4 |
| Depreciation | (242.6) | (232.1) | (0.2) | (0.2) | (2.9) | (3.0) | - | - | (9.2) | (15.3) | (2.0) | (2.1) | - | - | (256.9) | (252.7) |
| Segment operating results | 207.6 | 264.3 | (5.5) | (6.4) | 112.0 | 102.1 | 49.9 | 143.4 | 19.3 | 7.7 | (1.8) | (3.4) | - | - | 381.5 | 507.7 |
| Unallocated interest income and unallocated non-operating and corporate gains | | | | | | | | | | | | | | | 16.1 | 14.7 |
| Unallocated non-operating and corporate expenses, net | | | | | | | | | | | | | | | (57.2) | (48.9) |
| Operating profit | | | | | | | | | | | | | | | 340.4 | 473.5 |
| Finance costs | | | | | | | | | | | | | | | (175.7) | (194.4) |
| Share of profits and losses of: | | | | | | | | | | | | | | | | |
| A joint venture | - | - | - | - | 149.5 | 29.3 | - | - | - | - | - | - | - | - | 149.5 | 29.3 |
| Associates | - | - | - | - | 0.1 | 16.1 | - | - | - | - | 0.2 | (9.4) | - | - | 0.3 | 6.7 |
| Profit before tax | | | | | | | | | | | | | | | 314.5 | 315.1 |
| Income tax | | | | | | | | | | | | | | | (13.5) | (34.2) |
| Profit for the period before allocation between equity holders of the parent and non-controlling interests | | | | | | | | | | | | | | | 301.0 | 280.9 |
| Attributable to: | | | | | | | | | | | | | | | | |
| Equity holders of the parent | | | | | | | | | | | | | | | 294.0 | 270.3 |
| Non-controlling interests | | | | | | | | | | | | | | | 7.0 | 10.6 |
| | | | | | | | | | | | | | | | 301.0 | 280.9 |

3. Revenue, other income and gain are analysed as follows:

| | Six months ended 30th June, 2018 (Unaudited) HK$'M | Six months ended 30th June, 2017 (Unaudited) HK$'M |
|---|---|---|
| Revenue | | |
| Hotel operations and management services | **1,098.4** | 1,038.2 |
| Rental income: | | |
| Hotel properties | **23.3** | 21.8 |
| Investment properties | **12.3** | 7.8 |
| Aircraft | **17.7** | 22.9 |
| Others | **1.3** | 1.3 |
| Net gain/(loss) from sale of financial assets at fair value through profit or loss | **(7.3)** | 0.7 |
| Net loss on settlement of derivative financial instruments | **(6.7)** | – |
| Interest income from financial assets at fair value through profit or loss | **43.3** | 18.7 |
| Interest income from finance leases | **1.4** | 2.7 |
| Dividend income from listed investments | **4.6** | 2.5 |
| Sale of properties | **–** | 110.0 |
| Sale of aircraft | **7.8** | – |
| Other operations | **8.8** | 10.0 |
| | **1,204.9** | 1,236.6 |
| Other income and gain | | |
| Bank interest income | **13.5** | 14.2 |
| Other interest income | **120.0** | 68.3 |
| Maintenance reserves released | **19.4** | – |
| Gain on disposal of items of property, plant and equipment | **0.4** | 4.7 |
| Reimbursement of lease payments in connection with an undertaking provided by a joint venture | **–** | 115.3 |
| Others | **6.6** | 3.9 |
| | **159.9** | 206.4 |

4. An analysis of profit/(loss) on sale of investments and properties of the Group included in the operating profit is as follows:

| | Six months ended 30th June, 2018 (Unaudited) HK$'M | Six months ended 30th June, 2017 (Unaudited) HK$'M |
|---|---|---|
| Profit/(loss) from sale of financial assets at fair value through profit or loss | **(7.3)** | 0.7 |
| Loss on settlement of derivative financial instruments | **(6.7)** | – |
| Profit on disposal of properties | **–** | 48.6 |

5. Finance costs of the Group are as follows:

| | Six months ended 30th June, 2018 (Unaudited) HK$'M | Six months ended 30th June, 2017 (Unaudited) HK$'M |
|---|---|---|
| Interest on bank loans | **117.4** | 57.1 |
| Interest on other borrowings | **80.3** | 144.2 |
| Amortisation of debt establishment costs | **15.3** | 12.4 |
| Total interest expenses on financial liabilities not at fair value through profit or loss | **213.0** | 213.7 |
| Other loan costs | **2.4** | 4.9 |
| | **215.4** | 218.6 |
| Less: Finance costs capitalised | **(39.7)** | (24.2) |
| | **175.7** | 194.4 |

6. The income tax charge for the period arose as follows:

| | Six months ended 30th June, 2018 (Unaudited) HK$'M | Six months ended 30th June, 2017 (Unaudited) HK$'M |
|---|---|---|
| Current – Hong Kong | | |
| Charge for the period | **35.0** | 42.3 |
| Current – Overseas | | |
| Charge for the period | **0.5** | 0.2 |
| Deferred | **(22.0)** | (8.3) |
| Total tax charge for the period | **13.5** | 34.2 |

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16.5% (2017 – 16.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

Taxes on the profits of subsidiaries operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate.

The share of tax attributable to a joint venture and an associate amounting to HK$63.0 million and Nil, respectively (2017 – HK$6.1 million and HK$1.9 million, respectively), is included in "Share of profits and losses of a joint venture and associates" in the condensed consolidated statement of profit or loss.

7. Dividends:

| | For year ending 31st December, 2018 | For year ended 31st December, 2017 |
|---|---|---|
| | **HK$'M** | **HK$'M** |
| Interim – HK5.0 cents (2017 – HK4.5 cents) per ordinary share | **44.9** | 40.4 |

8. The calculation of basic earnings per ordinary share for the period ended 30th June, 2018 is based on the profit for the period attributable to equity holders of the parent of HK$294.0 million (2017 – HK$270.3 million), adjusted for the distribution related to perpetual securities of HK$57.2 million (2017 – Nil), and on the weighted average of 898.8 million (2017 – 914.5 million) ordinary shares of the Company in issue during the period.

No adjustment was made to the basic earnings per ordinary share for the periods ended 30th June, 2018 and 2017 as the Company had no potentially dilutive ordinary shares in issue and therefore no diluting events existed throughout the periods.

9. Included in debtors, deposits and prepayments is an amount of HK$116.0 million (31st December, 2017 – HK$140.3 million) representing the trade debtors of the Group. The ageing analysis of these debtors as at the end of the reporting period, based on the invoice date, is as follows:

| | **30th June, 2018** | **31st December, 2017** |
|---|---|---|
| | **(Unaudited)** | **(Audited)** |
| | **HK$'M** | **HK$'M** |
| Outstanding balances with ages: | | |
| Within 3 months | **90.1** | 115.7 |
| 4 to 6 months | **2.7** | 3.5 |
| 7 to 12 months | **4.3** | 7.2 |
| Over 1 year | **20.7** | 15.7 |
| | **117.8** | 142.1 |
| Impairment | **(1.8)** | (1.8) |
| | **116.0** | 140.3 |

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at their original invoiced amounts less impairment. The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 30th June, 2018, credit losses of HK$1.8 million (31st December, 2017 – HK$1.8 million) was made against the gross amounts of trade debtors. Bad debts are written off as incurred.

The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances.

10. Included in creditors, deposits received and accruals is an amount of HK$73.1 million (31st December, 2017 – HK$76.1 million) representing the trade creditors of the Group. The ageing analysis of these creditors as at the end of the reporting period, based on the invoice date, is as follows:

| | 30th June, 2018 (Unaudited) HK$'M | 31st December, 2017 (Audited) HK$'M |
|---|---|---|
| Outstanding balances with ages: | | |
| Within 3 months | **72.7** | 75.9 |
| 4 to 6 months | **–** | 0.1 |
| 7 to 12 months | **0.3** | 0.1 |
| Over 1 year | **0.1** | – |
| | **73.1** | 76.1 |

The trade creditors are non-interest bearing and are normally settled within 90 days.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30th June, 2018.

## REVIEW OF RESULTS

The Group's condensed consolidated financial statements for the six months ended 30th June, 2018 have not been audited, but have been reviewed by Ernst & Young, the Company's external auditor, whose review report is contained in the Company's interim report for the six months ended 30th June, 2018 to be despatched to shareholders.

The Audit Committee has reviewed the Group's condensed consolidated financial statements for the six months ended 30th June, 2018, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditor.

## CORPORATE GOVERNANCE

The Company has complied with the Code Provisions in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the six months ended 30th June, 2018, except that:

(1) The roles of the Chairman and Chief Executive Officer are not separated and performed by two different individuals, due to practical necessity to cater to the Group's corporate operating structure.

(2) The Non-Executive Director and Independent Non-Executive Directors of the Company were not appointed for specific terms, but in accordance with the provisions of the Bye-laws of the Company, all Directors (including the Non-Executive Director and the Independent Non-Executive Directors) of the Company are subject to retirement by rotation at least once every three years, and the retiring Directors are eligible for re-election.

## BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises the following members:

***Executive Directors:***
Mr. LO Yuk Sui
*(Chairman and Chief Executive Officer)*
Miss LO Po Man
*(Vice Chairman and Managing Director)*
Ms. Belinda YEUNG Bik Yiu
*(Chief Operating Officer)*
Mr. Donald FAN Tung
Mr. Jimmy LO Chun To
Mr. Kenneth NG Kwai Kai
Mr. Allen WAN Tze Wai

***Non-Executive Director:***
Dr. Francis CHOI Chee Ming, GBS, JP
*(Vice Chairman)*

***Independent Non-Executive Directors:***
Ms. Alice KAN Lai Kuen
Professor Japhet Sebastian LAW
Ms. Winnie NG, JP
Mr. WONG Chi Keung

By Order of the Board
**LO YUK SUI**
Chairman

Hong Kong, 27th August, 2018