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 2019 INTERIM RESULTS

FINANCIAL AND BUSINESS HIGHLIGHTS

	Six months ended 30th June, 2019	Six months ended 30th June, 2018	% Change
	(Unaudited)	(Unaudited)	
	HK$'M	HK$'M	
Revenue	**1,281.4**	1,204.9	**+6.3%**
Gross profit	**644.1**	560.3	**+15.0%**
Operating profit before depreciation, finance costs and tax	**910.0**	597.3	**+52.4%**
Profit for the period attributable to equity holders of the parent	**379.1**	294.0	**+28.9%**
Basic earnings per ordinary share attributable to equity holders of the parent	**HK35.84 cents**	HK26.36 cents	**+36.0%**
Interim dividend per ordinary share	**HK4.5 cents**	HK5.0 cents	**-10.0%**

	As at 30th June, 2019	As at 31st Dec, 2018	
	(Unaudited)	(Unaudited)	
Net asset value per ordinary share attributable to equity holders of the parent			
Book	**HK$14.73**	HK$14.31	**+2.9%**
Adjusted*	**HK$24.73**	HK$24.64	**+0.4%**

* 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, 2018 and 30th June, 2019, respectively, with the relevant deferred tax liabilities added back

- **For the period under review, the Group achieved an unaudited consolidated profit attributable to shareholders of HK$379.1 million, an increase of about 29% over the comparative profit of HK$294.0 million attained for the same period in 2018.**
- **While the core hotel business of the Group continued to operate steadily, the increase in the profit achieved for the period was principally attributable to the significant profits realised from the disposals of financial assets and the substantial fair value gains on the portfolio of financial assets held as at 30th June, 2019.**
- **Operating profit before depreciation, finance costs and tax amounted to HK$910.0 million, which was substantially above the comparative amount of HK$597.3 million in the first half of 2018.**
- **Depreciation charges for the period amounted to HK$266.2 million (2018 – HK$256.9 million), most of which were related to the Group's hotel properties, which though not having an impact on cash flow, have nonetheless impacted the Group's reported profit.**
- **Regal Real Estate Investment Trust, a listed subsidiary of the Group, owns a total of nine operating Regal and iclub Hotels in Hong Kong, with an aggregate of 4,909 guestrooms and suites. Except for the iclub Wan Chai Hotel which is self-operated by Regal REIT, the five initial Regal Hotels and the other 3 iclub Hotels are under lease to the Group for hotel operation.**
- **During the first half of 2019, the business environment for the hospitality industry in Hong Kong was becoming more competitive and hotel operators were faced with increasing pressure on room rates, particularly towards the end of the second quarter. Combined RevPAR of the five initial Regal Hotels dropped by 1.6% year-on-year and attained aggregate net property income for the interim period of HK$378.4 million (2018 – HK$406.8 million).**
- **The four iclub Hotels owned by the Group and operating in Hong Kong maintained steady performance during the interim period and attained modest increase in their combined RevPAR.**
- **The hotel licence for the 288-room iclub Mong Kok Hotel in Tai Kok Tsui, Kowloon developed by P&R Holdings Limited (the 50/50 joint venture with Paliburg Holdings Limited) was issued in March 2019 and the hotel soft opened for business soon afterwards. The hotel is presently managed by the Group and for the time being self-operated by P&R Holdings.**
- **The Group is developing through a wholly owned subsidiary a second hotel at the Hong Kong International Airport, proposed to be named as Regala Skycity Hotel, which will have over 1,200 guestrooms and suites. The construction works for this new hotel are progressing steadily and expected to be completed on schedule in late 2020.**

- **In April 2019, the Group acquired the entire equity interests in a company that owns a freehold existing property located at a prime location in London, the United Kingdom, which is intended to be renovated into a hotel with about 78 hotel rooms to be operated by the Group.**

- **Apart from the hotel projects, the Group is also undertaking a commercial/residential development located at Queen's Road West in Hong Kong and a rehabilitation and renovation project in Lisbon, Portugal.**

- **Mount Regalia in Kau To, Sha Tin is a major residential project developed by P&R Holdings comprising 24 garden houses and 136 apartment units together with car parks and club house facilities.The sale programme was recently commenced earlier this year and, up to this date, 1 garden house and 7 apartment units together with 9 car parks have been contracted to be sold. The average price secured under these contracted sales is very satisfactory and substantial profits will be realised when these property sales are duly completed with their respective purchasers.**

- **At present, the Group owns a fleet of 3 passenger aircraft which are all on operating leases. 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.**

- **Affected by the recent social disturbance events in the local community, the operating performances of the hotels owned by the Group in Hong Kong, during the month of July and in August to date, have been well below earlier forecasts. If the local hospitality market does not recover in the near term, it may have adverse impacts on their hotel incomes for the second half of this year.**

- **A number of major development projects undertaken by P&R Holdings have recently been completed, including the We Go MALL in 2018, the iclub Mong Kok Hotel and most notably, the Mount Regalia this year. While the We Go MALL and the iclub Mong Kok Hotel are now generating recurring income, the gradual disposals of the houses and apartment units in Mount Regalia will contribute substantial cash flow and profits to P&R Holdings in due course.**

- **Over the years, the Group has built a strong portfolio of quality assets and a solid financial foundation. It is well prepared to meet challenges and to progress forward against headwinds. Overall, the Directors of the Company remain cautiously optimistic of the future economic prospects of Hong Kong.**

FINANCIAL RESULTS

For the six months ended 30th June, 2019, the Group achieved an unaudited consolidated profit attributable to shareholders of HK$379.1 million, an increase of about 29% over the comparative profit of HK$294.0 million attained for the same period in 2018.

During the half year under review, the core hotel business of the Group continued to operate steadily. Benefited by the recovery of the capital market within the period, the Group realised significant profits from the disposals of financial assets and recorded substantial fair value gains on the portfolio of financial assets held as at 30th June, 2019. Operating profit before depreciation, finance costs and tax amounted to HK$910.0 million, which was substantially above the comparative amount of HK$597.3 million in the first half of 2018. Depreciation charges for the period amounted to HK$266.2 million (2018 – HK$256.9 million), most of which were related to the Group's hotel properties, which though not having an impact on cash flow, have nonetheless impacted 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, 2019, the adjusted net asset value per share of the Company would amount to HK$24.73, as compared to HK$14.73 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

According to a recent research report by the World Bank Group, global growth has continued to soften in the first half of 2019. The outlook for global growth for the full year has been adjusted downward to 2.6 percent, 0.3 percentage point below previous forecasts, reflecting that international trade and investment was weaker than expected at the start of the year. During the period under review, China's economy expanded by 6.3% over the same period in 2018. However, weighed down by the softness in manufacturing output due to the escalated trade disputes with the United States, trade flows have been weak. Affected by this unfavourable external climate, Hong Kong's economy also slowed down in the first six months of 2019 and the overall performance across a wide spectrum of economic sectors recorded a visible decline. During this period, the Gross Domestic Product (GDP) in real terms of Hong Kong only increased by 0.5% year-on-year, which was much lower than the GDP growth rate of 4% for the same period last year.

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

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

HOTEL OWNERSHIP

The Group is developing through a wholly owned subsidiary a second hotel at the Hong Kong International Airport, proposed to be named as Regala Skycity Hotel, which will have over 1,200 guestrooms and suites. The construction works for this new hotel are progressing steadily and expected to be completed on schedule in late 2020.

The Group also owns a 186-room hotel in Barcelona, Spain, formerly known as the La Mola Hotel & Conference Centre. This hotel property has been leased to an independent third party since September 2017 and yielded satisfactory rental income during the period under review.

In April 2019, the Group entered into a sale and purchase agreement with an independent third party for the acquisition of the entire equity interests in a company that owns a freehold existing property located at a prime location in London, the United Kingdom. The existing property has 9 storeys with approximately 2,150 square metres and is intended to be renovated into a hotel with about 78 hotel rooms to be operated by the Group. Further detailed information on this transaction was contained in the joint announcement of the Company dated 10th April, 2019. The acquisition of this target company has since been completed at the end of April this year.

REGAL REAL ESTATE INVESTMENT TRUST

The Group held 74.6% of the outstanding units of Regal REIT as at 30th June, 2019 and Regal Portfolio Management Limited, a wholly owned subsidiary of the Company, acts as the REIT Manager.

For the six months ended 30th June, 2019, Regal REIT recorded an unaudited consolidated loss before distribution to unitholders of HK$362.9 million, as compared to the profit of HK$942.9 million for the corresponding period in 2018. The loss recorded for the interim period was principally attributable to the reduction of HK$585.1 million in the fair value of

Regal REIT's investment property portfolio, based on the market valuations appraised by its principal valuer as of 30th June, 2019, as compared to the last appraised value as of 31st December, 2018. While for the corresponding period last year, a fair value gain of HK$716.0 million was recorded. If these fair value changes are excluded, the core operating profit before distribution to unitholders of Regal REIT for the interim period would amount to HK$222.1 million, slightly below the HK$226.9 million for the same period in 2018.

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 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 94.5%, which was 1.4 percentage points higher than the same period last year. However, as its average room rate decreased by 5.1%, its average RevPAR contracted by 3.8% year-on-year. The net property income from this property, including the lease rentals from the non-hotel portions, amounted to HK$11.2 million for the interim period, which was 5.9% below the comparative amount last year.

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.

During the first half of 2019, the business environment for the hospitality industry in Hong Kong was becoming more competitive and hotel operators were faced with increasing pressure on room rates, particularly towards the end of the second quarter. The combined average occupancy of the five initial Regal Hotels in Hong Kong, which operate as full-service hotels under the “Regal” brand name, during the interim period was 86.3%, as compared to 86.7% for the same period last year. Meanwhile, their combined average room rate decreased by 1.1%, with their combined RevPAR consequently dropping by 1.6% year-on-year. Aggregate net property income for the five hotels for the interim period amounted to HK$378.4 million, which was 7.0% below the HK$406.8 million attained for the same period in 2018 and also below the pro-rated prevailing aggregate base rent of HK$388.0 million for the half year of 2019.

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

During the interim period, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel attained a combined average occupancy rate of 93.4%, an increase of 4.7 percentage points as compared to the level in the corresponding period in 2018. Although their combined average room rate decreased by 2.9%, their combined average RevPAR overall improved by 2.3% year-on-year. Net property income for these two iclub Hotels for the interim period amounted to HK$22.5 million and HK$19.8 million, respectively, which was in each case below the pro-rated base rents of HK$23.0 million for the half year in 2019, as determined by an independent professional property valuer in accordance with the terms of the leases.

As for the iclub Ma Tau Wai Hotel, it 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. Under the arrangement agreed with P&R Holdings Limited, the 50/50 joint venture with Paliburg Holdings Limited, any deficit of the rental expenses below the net property income from the business operation of the hotel will be reimbursed by P&R Holdings to the Group annually during the initial 5-year term of the lease. Average occupancy rate for this hotel for the interim period was 81.6%, 2.6 percentage points above the comparative figure in 2018, while the average room rate was virtually maintained at about the same level.

HOTEL MANAGEMENT

Regal Hotels International Limited, the wholly owned management arm of the Group, is the hotel manager managing all the five initial Regal Hotels and five iclub Hotels now operating in Hong Kong. The most recent addition to the portfolio is the iclub Mong Kok Hotel, a 288-room hotel developed and owned by P&R Holdings, which was soft opened in March 2019. Two other new hotels in Hong Kong, also to be managed by Regal Hotels International, are coming on stream. They are, respectively, the iclub Sheung Wan II Hotel, which is also owned and developed by P&R Holdings, to be completed in the second half of this year and the Regala Skycity Hotel, owned and developed by the Group, in late 2020.

In Mainland China, the Group is presently managing a total of eight operating Regal Hotels, including four in Shanghai, two in Dezhou, one in Xi'an and one in Foshan. Having managed the Regal International East Asia Hotel in Shanghai since its opening in 1998, the management agreement for this hotel will end at the end of this year. The Group is also managing one hotel in Zhengzhou which is operating under the iclub by Regal brand. Three other hotels to be managed by the Group are under development, which are separately located in Chengdu, Jiangmen and Kunshan.

The hotel manager will continue to step up its efforts to promote the "Regal", "iclub" and the latest "Regala" brand names and to strengthen the Group's marketing and reservation networks on the internet and other platforms.

PROPERTIES

The property market in Hong Kong was relatively stable in the early part of 2019, with the sale price and transaction volume of residential properties having generally increased, particularly in the primary market. However, due to the deteriorating external environment and the escalated social disturbance in the local community, market sentiment since the latter part of June this year has been seriously affected.

Mount Regalia in Kau To, Sha Tin is a major residential project developed by P&R Holdings. The project has a total gross floor area of about 349,500 square feet, comprising 24 garden houses and 136 apartment units together with car parks and club house facilities. Following the issue of the certificate of compliance for this development, the sale programme was recently commenced earlier this year. Up to this date, 1 garden house and 7 apartment units together with 9 car parks have been contracted to be sold. The average price secured under these contracted sales is very satisfactory and substantial profits will be realised when these property sales are duly completed with their respective purchasers.

During the recent years, the Group has also taken on, through its wholly owned subsidiaries, property development business as and when appropriate opportunities arose.

Apart from the hotel projects mentioned above, the Group is also undertaking a commercial/residential development located at Queen's Road West in Hong Kong and a rehabilitation and renovation project in Lisbon, Portugal.

Further detailed information on the Group's development projects and properties, as well as those undertaken by P&R Holdings are contained in the "Management Discussion and Analysis" section, which also included information about the Group's financial assets and other investments.

AIRCRAFT OWNERSHIP AND LEASING

In February 2019, the Group completed the disposal of the one remaining Embraer ERJ135 aircraft to an independent buyer. The disposal of all our Embraer aircraft has on the whole generated satisfactory profits. In June 2019, the Group executed agreements to extend the operating leases of two Airbus A321-211 with the existing lessee, which is a major British international airline operator, from 2020 to 2024. The extensions of these leases will provide steady rental income for the Group during the extended term.

At present, the Group owns a fleet of 3 passenger aircraft which are all on operating leases. 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

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

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

The operating performances of the hotels owned by the Group in Hong Kong, during the month of July and in August to date, have been well below earlier forecasts. If the local hospitality market does not recover in the near term, it may have adverse impacts on their hotel incomes for the second half of this year.

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

A number of major development projects undertaken by P&R Holdings have recently been completed, including the We Go MALL in 2018, the iclub Mong Kok Hotel and most notably, the Mount Regalia this year. While the We Go MALL and the iclub Mong Kok Hotel are now generating recurring income, the gradual disposals of the houses and apartment units in Mount Regalia will contribute substantial cash flow and profits to P&R Holdings in due course.

Over the years, the Group has built a strong portfolio of quality assets and a solid financial foundation. It is well prepared to meet challenges and to progress forward against headwinds. Overall, the Directors of the Company remain cautiously optimistic of the future economic prospects of Hong Kong.

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 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 the 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, which (except for the property project in Portugal) are all wholly owned by the Group, and those undertaken by P&R Holdings (including those undertaken by Cosmopolitan International Holdings Limited, the listed subsidiary of P&R Holdings) as well as on the Group's financial assets and other investment is set out below.

Hong Kong

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 the 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 the first phase of the mega SKYCITY Project by the Airport Authority, which also 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 1,208 guestrooms and suites as well as extensive banquet, meeting and food and beverage facilities. The hotel will be operated as a full service hotel targeting at commercial, airline related, leisure and meeting businesses. The superstructure works are progressing steadily and this new hotel is anticipated to be completed in late 2020.

Nos.150-162 Queen's Road West, Hong Kong

The Group has successfully acquired 100% ownership interests in the subject properties through private treaty transactions. The project has a combined site area of 682 square metres (7,342 square feet) and is planned for a commercial/residential development with gross floor area of about 5,842 square metres (62,883 square feet). The general building plans have been approved and the demolition works of the existing buildings completed. The foundation works have commenced in July 2019 and the project is expected to be completed by 2021.

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

A total of 13 garden houses in Regalia Bay with total gross area of about 5,861 square metres (63,091 square feet) are still being retained, 7 of which are held as investment properties, 3 held for sale and 3 as property, plant and equipment. The Group will continue to dispose of some of these houses if the price offered is considered satisfactory.

Overseas

Campus La Mola, Barcelona, Spain

This hotel property was acquired by the Group in 2014. It has a total of 186 rooms and was formerly operated by the Group under the name of La Mola Hotel & Conference Centre. The hotel property has been leased to an independent third party under a lease agreement that commenced in September 2017 and yielded satisfactory rentals during the period under review.

41 Kingsway, London WC2B 6TP, the United Kingdom

The Group recently acquired in April 2019 this freehold existing property at an aggregate consideration of approximately GBP22 million (equivalent to approximately HK$223.7 million). This existing property has 9 storeys (including basement and ground floor) with gross floor area of approximately 2,150 square metres (23,140 square feet) and is presently vacant. This property is intended to be renovated into a hotel with about 78 hotel rooms to be operated by the Group.

Fabrik, Rua Dos Fanqueiros 156, Lisbon, Portugal

The Group has a 90% interest in this property project, which is a rehabilitation and renovation project for a historic building located in an area of vast historical heritage. The building has gross development area of about 1,836 square metres (19,768 square feet) comprising shops and apartments. The design for the renovation programme has been approved by the local government authorities. The tendering process for the selection of the main contractor is at the final stage and the renovation works are expected to commence soon afterwards. The property project is intended for sale.

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 were 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 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 26 houses have been sold or contracted to be sold. The 10 remaining houses will continue to be disposed of on a gradual basis but 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 2018, the "We Go MALL" has been well received. 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 has been 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 obtained in July 2018. The presale of the residential units was first launched in July 2016 and all residential units have been sold. The commercial units are planned to be tendered for sale in the fourth quarter of 2019.

Mount Regalia, 23 Lai Ping Road, Kau To, Sha Tin, New Territories

The project has a site area of 17,476 square metres (188,100 square feet). It has been 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 occupation permit was issued in September 2018 and the certificate of compliance in February 2019. The marketing and sale programme was recently commenced earlier this year.

Up to this date, 1 garden house and 7 apartment units together with 9 car parks have been contracted to be sold for an aggregate gross consideration of about HK$648 million. The average price secured under these contracted sales is very satisfactory and substantial profits will be realised when these property sales are duly completed with their respective purchasers.

iclub Mong Kok Hotel at 2 Anchor 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. The project has a site area of 725.5 square metres (7,809 square feet), with 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).

The project has been developed into a 20-storey hotel, comprising 288 guestrooms with ancillary facilities, with its occupation permit issued in October 2018. The hotel was soft opened for business after the issue of the hotel licence in March 2019. The legal title to the property has recently been formally conveyed to a wholly owned subsidiary of P&R Holdings under the terms of the development agreement with the Urban Renewal Authority of Hong Kong. The hotel is presently managed by the Group and for the time being self-operated by P&R Holdings.

Nos.5-7 Bonham Strand West and Nos.169-171 Wing Lok Street, Sheung Wan, Hong Kong, 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 (totally 162 room bays), 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). The building works have mostly been completed and the project is scheduled for completion in the fourth quarter of 2019. It is expected that the hotel licence will be obtained and the hotel open for business in the first quarter of 2020.

Nos.291-293 and 301-303 Castle Peak Road, Cheung Sha Wan, Kowloon

The properties presently comprise interests in 80% undivided shares of Nos.291-293 Castle Peak Road and 100% ownership interests of Nos.301-303 Castle Peak Road. The properties have a total site area of 488 square metres (5,260 square feet) and are planned for a commercial/residential development having an aggregate gross floor area of approximately 4,395 square metres (47,304 square feet).

Nos.9-19 Kam Wa Street, Shau Kei Wan, Hong Kong

The entire ownership interests in the subject properties have now been acquired through private treaty transactions earlier this year. The properties have a total site area of 518 square metres (5,580 square feet) and are intended for a commercial/residential development having an aggregate gross floor area of approximately 4,144 square metres (44,606 square feet).

COSMOPOLITAN INTERNATIONAL HOLDINGS LIMITED

Cosmopolitan is a listed subsidiary of P&R Holdings. Further information relating to the property projects of the Cosmopolitan group, all of which are wholly owned, as well as the possible investment in logistics business in the PRC 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).

While the nine residential towers in the first and second stages of the Chengdu project have been completed, the superstructure works of the third stage of the development consisting of ten residential towers of total 1,555 units, about 4,100 square metres (44,100 square feet) of commercial accommodations and 1,941 car parking spaces are in steady progress. Presale of two residential towers consisting of 314 units in the third stage of the development was commenced in March 2019. Up to date, a total of 268 residential units have been contracted as sold, securing aggregate sales proceeds of approximately RMB334 million (equivalent to approximately HK$365 million). The presale of another three residential towers consisting of 472 units has further been launched recently this August and the response is favourable.

The business remodeling works of the hotel have been completed and corresponding interior design works are progressing. The interior fitting-out works are scheduled to commence in early 2020 and the hotel is scheduled to open in phases from the end of 2020.

The updated scheme design of the remaining commercial components within the development, comprising a six-storey commercial complex of about 48,000 square metres (516,700 square feet) and five towers of office accommodations of about 90,500 square metres (974,100 square feet), have been approved by the local authority and the detailed design works have also commenced. The construction works are planned to be started in late 2019 and the associated presale programme is expected to be launched in late 2020.

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 sale of the commercial complex, comprising mainly shops of about 19,000 square metres (205,000 square feet), is continuing steadily and contracts for sale have been secured for some of the shop units. Certain parts of the commercial complex have in the meantime been leased out for rental income.

The superstructure works of the two office towers have resumed since June 2019. The presale of the office accommodations is planned to be launched in the second quarter of 2020.

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 would be available for real estate development after the requisite inspection, land grant listing and tender procedures are completed.

The Cosmopolitan group continues to maintain the re-forested area and communicate with the relevant government authority to initiate appropriate measures to settle the disputes over certain portions of the land in the project site that have been illegally occupied. 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.

Logistics Business

Possible Investment in a Logistics Group

As previously disclosed, the Cosmopolitan group entered into certain deposit agreements and loan agreements in August and September 2018 with independent third parties for the possible investment by the Cosmopolitan group in a sizeable logistics services provider that is principally operating logistics and express delivery services and the development and operation of logistics parks in the PRC. The Cosmopolitan group has paid deposits to the vendor and the target investee group in a total amount of RMB170 million and also granted loans to the target investee group in an aggregate sum of RMB150 million due for repayment in November 2018. Together with the interest accrued on the loans, the total amount of such deposits and loans amounted to RMB360.7 million in the books of the Cosmopolitan group as at 30th June, 2019.

Due to the complex operating structure and the financial status of the target investee group, the negotiations on the final terms of the proposed investment by the Cosmopolitan group in the target investee group and certain of its selected businesses have not progressed as smoothly as initially envisaged. The Cosmopolitan group is still continuing its discussions with the vendor and the target investee group on the investment proposal and, in the meantime, is also conducting negotiations with a potential investor for its possible investment in these logistics businesses. Further announcement will be made as and when an investment proposal is finalised.

In the meantime, the deposits and the loan amounts (together with the interest accrued) continue to be secured primarily by equity pledges over certain PRC companies associated with the vendor, guarantees provided by the vendor and certain of his associates, and pledges over the receivables of the target investee group and certain associates of the vendor.

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. Benefited by the recovery of the capital market within the period, the Group realised significant profits from the disposals of financial assets and recorded substantial fair value gains on the portfolio of financial assets held as at 30th June, 2019. However, the capital market, particularly the equities market, has become more volatile since the half year end date, which could have impact on the performance of the Group's investment portfolio in the second half of 2019.

FINANCIAL REVIEW

ASSETS VALUE

The Group's hotel properties in Hong Kong owned by Regal REIT, 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 market value as at 30th June, 2019, the unaudited adjusted net asset value of the ordinary shares of the Company would be HK$24.73 per share, computed as follows:

	As at 30th June, 2019	
	HK$'M	**HK$ per ordinary share**
Book net assets attributable to equity holders of the parent	**13,239.0**	**14.73**
Adjustment to restate the Group's hotel property portfolio in Hong Kong at its market value and add back the relevant deferred tax liabilities	**8,989.8**	**10.00**
Unaudited adjusted net assets attributable to equity holders of the parent	**22,228.8**	**24.73**

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 generated from operating activities of HK$633.6 million (2018 – net cash flows used in operating activities of HK$490.9 million). Net interest payment for the period amounted to HK$105.9 million (2018 – HK$127.7 million).

Borrowings and Gearing

As at 30th June, 2019, the Group had cash and bank balances and deposits of HK$2,103.1 million (31st December, 2018 – HK$1,874.8 million) and the Group's borrowings, net of cash and bank balances and deposits, amounted to HK$12,795.2 million (31st December, 2018 – HK$12,951.7 million).

As at 30th June, 2019, the gearing ratio of the Group was 39.8% (31st December, 2018 – 40.8%), representing the Group's borrowings, net of cash and bank balances and deposits, of HK$12,795.2 million (31st December, 2018 – HK$12,951.7 million), as compared to the total assets of the Group of HK$32,165.5 million (31st December, 2018 – HK$31,737.9 million).

On the basis of the adjusted total assets as at 30th June, 2019 of HK$43,912.4 million (31st December, 2018 – HK$43,842.4 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 29.1% (31st December, 2018 – 29.5%).

Details of the maturity profile of the borrowings of the Group as of 30th June, 2019 are shown in the condensed consolidated financial statements contained in the interim report for the six months ended 30th June, 2019 of the Company ("Interim Financial Statements") to be published on or before 30th September, 2019.

Lease liabilities

As at 30th June, 2019, the Group had lease liabilities of HK$41.8 million.

Pledge of Assets

As at 30th June, 2019, the Group's properties held for sale and certain of the Group's property, plant and equipment, investment properties, financial assets at fair value through profit or loss, time deposits and bank balances in the total amount of HK$20,690.4 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, 2018, the Group's properties held for sale and certain of the Group's property, plant and equipment, investment properties, 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$21,134.5 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, 2019 are shown in the Interim Financial Statements.

Contingent Liabilities

As at 30th June, 2019, 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$2,643.6 million (31st December, 2018 – HK$2,537.8 million), of which HK$2,602.6 million (31st December, 2018 – HK$2,334.1 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, 2018 – HK$15.0 million).

DIVIDEND

The Directors have declared the payment of an interim dividend of HK4.5 cents (2018 – HK5.0 cents) per ordinary share for the financial year ending 31st December, 2019, absorbing an amount of approximately HK$40.4 million (2018 – HK$44.9 million) and will be payable to holders of ordinary shares on the Register of Ordinary Shareholders on 15th October, 2019.

CLOSURE OF REGISTER

The Register of Ordinary Shareholders will be closed from Friday, 11th October, 2019 to Tuesday, 15th October, 2019, 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 Thursday, 10th October, 2019. The relevant dividend warrants are expected to be despatched on or about 28th October, 2019.

HALF YEAR RESULTS

Condensed Consolidated Statement of Profit or Loss

	Six months ended 30th June, 2019 (Unaudited) HK$'M	Six months ended 30th June, 2018 (Unaudited) HK$'M
REVENUE (Notes 2 & 3)	**1,281.4**	1,204.9
Cost of sales	**(637.3)**	(644.6)
Gross profit	**644.1**	560.3
Other income and gain (Note 3)	**103.7**	159.9
Fair value gains on financial assets at fair value through profit or loss, net	**274.2**	10.0
Fair value gains on investment properties, net	**21.9**	2.9
Property selling and marketing expenses	**(9.2)**	–
Administrative expenses	**(124.7)**	(135.8)
OPERATING PROFIT BEFORE DEPRECIATION	**910.0**	597.3
Depreciation	**(266.2)**	(256.9)
OPERATING PROFIT (Notes 2 & 4)	**643.8**	340.4
Finance costs (Note 5)	**(191.4)**	(175.7)
Share of profits and losses of:		
A joint venture	**(96.1)**	149.5
Associates	**35.8**	0.3
PROFIT BEFORE TAX	**392.1**	314.5
Income tax (Note 6)	**(7.2)**	(13.5)
PROFIT FOR THE PERIOD BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS	**384.9**	301.0

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

	Six months ended 30th June, 2019 (Unaudited) HK$'M	Six months ended 30th June, 2018 (Unaudited) HK$'M
Attributable to:		
Equity holders of the parent	**379.1**	294.0
Non-controlling interests	**5.8**	7.0
	384.9	301.0
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Note 8)		
Basic and diluted	**HK35.84 cents**	HK26.36 cents

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30th June, 2019	Six months ended 30th June, 2018
	(Unaudited)	**(Unaudited)**
	HK$'M	**HK$'M**
PROFIT FOR THE PERIOD BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS	**384.9**	301.0
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	**(6.5)**	(5.8)
Share of other comprehensive income/(loss) of:		
A joint venture	**233.9**	(25.9)
An associate	**–**	(0.1)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**227.4**	(31.8)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Equity investment designated at fair value through other comprehensive income:		
Changes in fair value	**(49.5)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**177.9**	(31.8)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**562.8**	269.2
Attributable to:		
Equity holders of the parent	**557.0**	262.2
Non-controlling interests	**5.8**	7.0
	562.8	269.2

Condensed Consolidated Statement of Financial Position

	30th June, 2019 (Unaudited) HK$'M	31st December, 2018 (Audited) HK$'M
NON-CURRENT ASSETS		
Property, plant and equipment	**18,736.3**	18,529.9
Investment properties	**1,063.6**	1,147.2
Properties under development	**886.3**	897.9
Right-of-use assets	**34.4**	–
Investments in joint ventures	**3,535.7**	3,539.9
Investments in associates	**52.3**	16.5
Equity investments designated at fair value through other comprehensive income	**213.0**	–
Financial assets at fair value through profit or loss	**690.2**	550.1
Other loan	**1,062.0**	1,062.0
Debtors and deposits (Note 9)	**164.1**	5.7
Deferred tax assets	**46.9**	42.9
Total non-current assets	**26,484.8**	25,792.1
CURRENT ASSETS		
Properties held for sale	**230.0**	223.1
Inventories	**27.9**	27.8
Aircraft held for sale	–	5.9
Debtors, deposits and prepayments (Note 9)	**345.8**	308.2
Financial assets at amortised cost	**38.8**	481.3
Financial assets at fair value through profit or loss	**2,606.4**	2,721.8
Other loans	**310.1**	267.3
Derivative financial instruments	**12.0**	28.4
Tax recoverable	**6.7**	7.2
Restricted cash	**78.8**	68.5
Pledged time deposits and bank balances	**298.2**	24.0
Time deposits	**850.5**	893.5
Cash and bank balances	**875.6**	888.8
Total current assets	**5,680.8**	5,945.8

Condensed Consolidated Statement of Financial Position (Cont'd)

	30th June, 2019 (Unaudited) HK$'M	31st December, 2018 (Audited) HK$'M
CURRENT LIABILITIES		
Creditors, deposits received and accruals (Note 10)	**(370.0)**	(425.8)
Contract liabilities	**(63.6)**	(42.6)
Lease liabilities	**(17.0)**	–
Interest bearing bank borrowings	**(1,322.8)**	(1,174.8)
Derivative financial instruments	**(0.7)**	(1.0)
Tax payable	**(37.3)**	(25.6)
Total current liabilities	**(1,811.4)**	(1,669.8)
NET CURRENT ASSETS	**3,869.4**	4,276.0
TOTAL ASSETS LESS CURRENT LIABILITIES	**30,354.2**	30,068.1
NON-CURRENT LIABILITIES		
Creditors and deposits received (Note 10)	**(138.9)**	(97.0)
Lease liabilities	**(24.8)**	–
Interest bearing bank borrowings	**(10,853.2)**	(10,925.8)
Other borrowing	**(2,722.3)**	(2,725.9)
Deferred tax liabilities	**(861.6)**	(883.8)
Total non-current liabilities	**(14,600.8)**	(14,632.5)
Net assets	**15,753.4**	15,435.6
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**89.9**	89.9
Reserves	**13,149.1**	12,774.2
	13,239.0	12,864.1
Perpetual securities	**1,732.9**	1,732.9
Non-controlling interests	**781.5**	838.6
Total equity	**15,753.4**	15,435.6

Notes:

1. Accounting Policies

The condensed consolidated financial statements for the six months ended 30th June, 2019 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, 2018, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the Group's annual periods beginning on or after 1st January, 2019.

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

Other than as explained below regarding the impact of HKFRS 16 and Amendments to HKAS 28, the adoption of the above new and revised standards are not relevant to the preparation of the Group's condensed consolidated financial statements.

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

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

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

New definition of a lease

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices.

As a lessee - Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Impacts on transition

Lease liabilities at 1st January, 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1st January, 2019.

The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1st January, 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets and lease liabilities separately in the statement of financial position.

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

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

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

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

	Increase (Unaudited) HK$'M
Assets	
Right-of-use assets	34.1
Investment properties	8.3
Total assets	42.4
Liabilities	
Lease liabilities	42.4

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

	(Unaudited) HK$'M
Operating lease commitments as at 31st December, 2018	28.3
Weighted average incremental borrowing rate as at 1st January, 2019	2.82%
Discounted operating lease commitments as at 1st January, 2019	27.5
Add: Payments for optional extension period not recognised as at 31st December, 2018	15.1
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31st December, 2019	(0.2)
Lease liabilities as at 1st January, 2019	42.4

Disclosure of the changes in accounting policies is provided in the Group's Interim Financial Statements.

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1st January, 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's condensed consolidated financial information.

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 and management 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,	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	(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	1,103.8	1,130.6	-	-	6.6	6.4	133.7	33.9	25.9	26.9	11.4	7.1	-	-	1,281.4	1,204.9
Intersegment sales	2.5	3.6	56.1	53.1	2.5	2.4	-	-	-	-	58.0	51.0	(119.1)	(110.1)	-	-
Total	1,106.3	1,134.2	56.1	53.1	9.1	8.8	133.7	33.9	25.9	26.9	69.4	58.1	(119.1)	(110.1)	1,281.4	1,204.9
Segment results before depreciation	412.9	450.2	(5.0)	(5.3)	105.4	114.9	408.9	49.9	17.8	28.5	(2.8)	0.2	-	-	937.2	638.4
Depreciation	(250.8)	(242.6)	(1.1)	(0.2)	(3.3)	(2.9)	-	-	(9.0)	(9.2)	(2.0)	(2.0)	-	-	(266.2)	(256.9)
Segment operating results	162.1	207.6	(6.1)	(5.5)	102.1	112.0	408.9	49.9	8.8	19.3	(4.8)	(1.8)	-	-	671.0	381.5
Unallocated interest income and unallocated non-operating and corporate gains															10.9	16.1
Unallocated non-operating and corporate expenses, net															(38.1)	(57.2)
Operating profit															643.8	340.4
Finance costs															(191.4)	(175.7)
Share of profits and losses of:																
A joint venture	-	-	-	-	(96.1)	149.5	-	-	-	-	-	-	-	-	(96.1)	149.5
Associates	-	-	-	-	35.6	0.1	-	-	-	-	0.2	0.2	-	-	35.8	0.3
Profit before tax															392.1	314.5
Income tax															(7.2)	(13.5)
Profit for the period before allocation between equity holders of the parent and non-controlling interests															384.9	301.0
Attributable to:																
Equity holders of the parent															379.1	294.0
Non-controlling interests															5.8	7.0
															384.9	301.0

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

	Six months ended 30th June, 2019 (Unaudited) HK$'M	Six months ended 30th June, 2018 (Unaudited) HK$'M
<u>Revenue</u>		
Revenue from contracts with customers		
Hotel operations and management services	**1,065.6**	1,098.4
Sale of aircraft	**5.9**	7.8
Other operations	**11.3**	6.7
Revenue from other sources		
Rental income:		
Hotel properties	**27.2**	23.3
Investment properties	**14.4**	12.3
Aircraft	**20.0**	17.7
Others	**1.3**	1.3
Gain/(loss) from sale of financial assets at fair value through profit or loss, net	**75.0**	(7.3)
Gain/(loss) on settlement of derivative financial instruments, net	**0.3**	(6.7)
Interest income from financial assets at fair value through profit or loss	**52.2**	43.3
Interest income from finance leases	**–**	1.4
Dividend income from listed investments	**6.1**	4.6
Other operations	**2.1**	2.1
	1,281.4	1,204.9

Other income and gain

Bank interest income	**10.3**	13.5
Other interest income	**83.3**	120.0
Maintenance reserves released	**–**	19.4
Gain on disposal of items of property, plant and equipment	**–**	0.4
Gain on disposal of an investment property	**9.0**	–
Others	**1.1**	6.6
	103.7	159.9

4. An analysis of profit on sale of properties and depreciation of the Group is as follows:

	Six months ended 30th June, 2019	**Six months ended 30th June, 2018**
	(Unaudited)	**(Unaudited)**
	HK$'M	**HK$'M**
Profit on disposal of a property	**9.0**	–
Depreciation of property, plant and equipment	**258.6**	256.9
Depreciation of right-of-use assets	**7.6**	–
	266.2	256.9

5. Finance costs of the Group are as follows:

	Six months ended 30th June, 2019	Six months ended 30th June, 2018
	(Unaudited)	**(Unaudited)**
	HK$'M	**HK$'M**
Interest on bank loans	**163.9**	117.4
Interest on other borrowings	**54.1**	80.3
Interest on lease liabilities	**0.7**	–
Amortisation of debt establishment costs	**15.4**	15.3
Total interest expenses on financial liabilities not at fair value through profit or loss	**234.1**	213.0
Other loan costs	**5.3**	2.4
	239.4	215.4
Less: Finance costs capitalised	**(48.0)**	(39.7)
	191.4	175.7

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

	Six months ended 30th June, 2019	Six months ended 30th June, 2018
	(Unaudited)	**(Unaudited)**
	HK$'M	**HK$'M**
Current – Hong Kong		
Charge for the period	**32.4**	35.0
Underprovision in prior years	**0.1**	–
Current – Overseas		
Charge for the period	**0.5**	0.5
Underprovision in prior years	**0.2**	–
Deferred	**(26.0)**	(22.0)
Total tax charge for the period	**7.2**	13.5

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16.5% (2018 – 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 amounting to HK$3.9 million (2018 – HK$63.0 million) is included in "Share of profits and losses of a joint venture and associates" in the condensed consolidated statement of profit or loss.

7. Dividend:

	For year ending 31st December, 2019	**For year ended 31st December, 2018**
	HK$'M	**HK$'M**
Interim – HK4.5 cents (2018 – HK5.0 cents) per ordinary share	**40.4**	44.9

8. The calculation of basic earnings per ordinary share for the period ended 30th June, 2019 is based on the profit for the period attributable to equity holders of the parent of HK$379.1 million (2018 – HK$294.0 million), adjusted for the distribution related to perpetual securities of HK$57.0 million (2018 – HK$57.2 million), and on the weighted average of 898.8 million (2018 – 898.8 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, 2019 and 2018 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$119.5 million (31st December, 2018 – HK$140.6 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, 2019	31st December, 2018
	(Unaudited)	(Audited)
	HK$'M	HK$'M
Outstanding balances with ages:		
Within 3 months	**93.4**	119.7
Between 4 to 6 months	**7.4**	3.3
Between 7 to 12 months	**5.5**	5.5
Over 1 year	**19.1**	16.8
	125.4	145.3
Impairment	**(5.9)**	(4.7)
	119.5	140.6

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 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$64.5 million (31st December, 2018 – HK$65.4 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, 2019	**31st December, 2018**
	(Unaudited)	**(Audited)**
	HK$'M	**HK$'M**
Outstanding balances with ages:		
Within 3 months	**64.4**	65.1
Between 4 to 6 months	**0.1**	0.2
Between 7 to 12 months	**–**	0.1
	64.5	65.4

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, 2019.

REVIEW OF RESULTS

The Group's condensed consolidated financial statements for the six months ended 30th June, 2019 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, 2019 to be despatched to shareholders.

The Audit Committee has reviewed the Group's condensed consolidated financial statements for the six months ended 30th June, 2019, 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, 2019, 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, 26th August, 2019