



REGAL REIT

富豪產業信託

Regal Real Estate Investment Trust

(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))
(Stock Code : 1881)

ANNUAL REPORT 2018



Managed by



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



Contents

2	Corporate Information
3	Chairman’s Statement
7	Property Portfolio
17	Report of the REIT Manager
39	Director and Executive Officer Profiles
43	Corporate Governance Report
56	Connected Party Transactions
62	Disclosure of Interests
64	Audited Financial Statements
64	Consolidated Statement of Profit or Loss
65	Consolidated Statement of Comprehensive Income
66	Consolidated Statement of Financial Position
68	Consolidated Statement of Changes in Net Assets Attributable To Unitholders
69	Distribution Statement
70	Consolidated Statement of Cash Flows
72	Notes to Consolidated Financial Statements
117	Independent Auditor’s Report
122	Performance Table
123	Trustee’s Report
124	Valuation Report
182	Summary of Property Portfolio
184	Summary Financial Information

CORPORATE INFORMATION

MANAGER OF REGAL REIT

Regal Portfolio Management Limited (the "REIT Manager")
Unit No. 2001, 20th Floor,
68 Yee Wo Street,
Causeway Bay,
Hong Kong.
Tel: 2805-6336
Fax: 2577-8686
Email: info@regalreit.com

BOARD OF DIRECTORS OF THE REIT MANAGER

Non-executive Directors

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

Executive Directors

Johnny Chen Sing Hung
Simon Lam Man Lim

Independent Non-executive Directors

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

AUDIT COMMITTEE OF THE REIT MANAGER

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

DISCLOSURE COMMITTEE OF THE REIT MANAGER

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

RESPONSIBLE OFFICERS OF THE REIT MANAGER

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

SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

TRUSTEE OF REGAL REIT

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

AUDITOR

Ernst & Young

PRINCIPAL VALUER

CBRE Limited

PRINCIPAL BANKERS

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

LEGAL ADVISER

Baker & McKenzie

UNIT REGISTRAR

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

WEBSITE

www.RegalREIT.com



Chairman – Y.S. Lo

Dear Unitholders,

I am pleased to present, on behalf of the Board of Directors of Regal Portfolio Management Limited as the REIT Manager, the 2018 Annual Report of Regal Real Estate Investment Trust.

FINANCIAL RESULTS

For the year ended 31st December, 2018, Regal REIT recorded consolidated profit before distributions to Unitholders of HK\$2,251.7 million, as compared to the profit of HK\$2,488.3 million for the financial year 2017. The consolidated profit recorded for 2018 included a fair value gain of HK\$1,789.1 million arising from the increase in the appraised values of Regal REIT's investment property portfolio, after offsetting the additional capital expenditures for the year, while for the financial year 2017, the corresponding fair value gain was HK\$2,044.2 million. If the effects of the fair value changes are excluded, the core profit before distributions to Unitholders for the year under review would amount to HK\$462.5 million, an increase of 4.1% as compared to HK\$444.1 million for the preceding year.

Total distributable income for the year under review amounted to HK\$489.2 million, which was 3.4% higher than the HK\$473.0 million reported in 2017. The increase in the total distributable income was primarily attributable to the increase attained in the overall hotel income, which reflected a full year rental contribution from the iclub Ma Tau Wai Hotel, although the financing costs incurred have also increased due to the rise in the Hong Kong Interbank Offered Rate (HIBOR), on which the bank loans of Regal REIT are based.

The Board of Directors of the REIT Manager has resolved to declare a final distribution of HK\$0.076 per Unit for the year ended 31st December, 2018 (2017: HK\$0.071). Together with the interim distribution of HK\$0.074 (2017: HK\$0.074) per Unit paid, this brings the total distributions per Unit for 2018 to HK\$0.150 (2017: HK\$0.145). Total distributions for the year, including both the interim and final distributions, will amount to HK\$488.6 million and represent a payout ratio of 99.9% of the total distributable income for 2018.

HOTEL MARKET AND BUSINESS REVIEW

According to a recent publication by the World Bank Group, global growth is projected to moderate from a downward revised 3% in 2018 to 2.9% in 2019 and to 2.8% in 2020-21. Growth in the United States will continue to be supported by fiscal stimulus in the near term, which will likely lead to larger and more persistent fiscal deficits. The growth in the Gross Domestic Product (GDP) in China reached 6.6% in 2018 but is projected to decelerate in 2019, slightly below previous projections as a result of weaker exports. Hong Kong sustained strong growth in the first half of the year under a stable economic environment. Following the escalation of the United States – China trade disputes and the successive interest rate hikes in the United States, Hong Kong's economic growth decelerated notably in the second half and particularly in the fourth quarter. GDP growth in real terms for 2018 as a whole was 3.0%, albeit still faster than the trend growth rate of 2.8% over the past decade, it was slower than the 3.8% growth attained in 2017.

For the whole year of 2018, visitor arrivals to Hong Kong increased by 11.4% year-on-year to a new record high of 65.1 million, led by an increase in the overall number of visitors from Mainland China. Total overnight visitors to Hong Kong amounted to 29.3 million, representing an increase of 4.9% year-on-year. Of the total 51.0 million visitors from Mainland China, 19.9 million were overnight visitors, which was an increase of 7.4% year-on-year. On the other hand, the number of overnight visitors from the traditional long haul markets and other short haul markets (excluding Mainland China) remained relatively steady. Based on a hotel survey published by the Hong Kong Tourism Board (HKTB), the average hotel occupancy rate for all the surveyed hotels in different categories in 2018 was 91.0%, an increase of 2.0 percentage points from 2017, while the industry-wide average room rate recorded a growth of 6.8%, resulting in a year-on-year increase of 9.2% in Revenue per Available Room (RevPAR).

The five Initial Hotels, which are leased to a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL"), the immediate listed holding company of Regal REIT, have maintained steady operating performances. The combined average occupancy rate for the Initial Hotels in 2018 was 88.7%, as compared to 87.4% last year, while their combined average room rate increased by 7.4%, resulting in a year-on-year enhancement of 9.0% in RevPAR, fairly in line with the industry average.

The total net property income generated by the five Initial Hotels for the year amounted to HK\$875.7 million, which was 8.5% higher than the HK\$807.3 million in 2017. This represented an excess of HK\$124.7 million in the net property income over the aggregate annual base rent of HK\$751.0 million for the year and 50% of such excess in the amount of HK\$62.3 million was attributable to Regal REIT as variable rent.

The market rental review for the five Initial Hotels for 2019 was completed in September 2018. The aggregate annual base rent for 2019 was determined to be HK\$776.0 million, reflecting an increment of HK\$25.0 million over the aggregate base rent for 2018, with variable rent continuing to be based on 50% sharing of the excess of the aggregate net property income of the Initial Hotels over the aggregate base rent. The relatively substantial amount of base rent fixed for the Initial Hotels will continue to benefit Regal REIT in buffering against any unexpected short term business fluctuations in the local hotel market.

Apart from the five Initial Hotels under the “Regal” brand, Regal REIT is gradually building up a strong portfolio of iclub Hotels, a select-service hotel brand developed by the RHIHL group. Currently, there is a total of four iclub Hotels owned by Regal REIT and operating in Hong Kong. The first iclub Hotel was the iclub Wan Chai Hotel, which is self-operated by Regal REIT and managed by a subsidiary of RHIHL. This hotel has all along enjoyed high occupancy levels and an increasing focus is now being placed on yield enhancement. The year-round average occupancy rate in 2018 was 95.9%, slightly higher than the 95.3% in 2017, while the average room rate increased by 9.1% with RevPAR consequently improved by 9.8% year-on-year.

Two other iclub Hotels, the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel have also been leased to the same lessee of the Initial Hotels. During the year under review, the operating performances of these two iclub Hotels achieved considerable improvements. Their combined annual average occupancy rate was maintained at 92.5%, 0.9 percentage point above the level in 2017, while their combined average room rate enhanced by 10.4%, achieving a 11.4% improvement in RevPAR year-on-year. For the year 2018, these two hotels generated aggregate rental receipts of HK\$90.6 million, which was a combination of base rent and variable rent under the market rental packages. The aggregate rental receipts for the year were comparatively lower than the lease income of HK\$117.6 million received for 2017, as the lease income for the prior year included a portion of the pre-determined fixed rentals applicable for the initial lease periods for these two hotels that expired in February and July 2017, respectively. Similar to the Initial Hotels, their rental packages are being determined annually by an independent professional property valuer. Under the market rental reviews concluded in September 2018, the base rent for 2019 for each of the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel has been determined to be HK\$46.0 million, reflecting an overall increment of HK\$7.6 million over their aggregate annual base rent for 2018, with variable rent continuing to be based on 50% sharing of the excess of the net property income over the base rent of each hotel. The initial fixed terms of the leases for these two hotels will expire on 31st December, 2019 but Regal REIT has the option to extend the leases for another five years.

The iclub Ma Tau Wai Hotel is the fourth iclub Hotel owned by Regal REIT, which was acquired in September 2017. This hotel carries the benefit of a lease with the same RHIHL lessee for a term of five years with escalating fixed rentals at an average yield of 4.5% per annum, assuring Regal REIT with stable returns during the hotel’s start-up period. The lease will be extendable at the option of Regal REIT up to 31st December, 2027, with rentals to be based on annual market rental reviews. For the year under review, this hotel earned fixed rental income of HK\$55.5 million. Although still in start-up mode, the iclub Ma Tau Wai Hotel has managed to attain satisfactory performance during the year, with an average occupancy rate maintained at 84.4%.

Regal REIT currently owns a total of nine operating hotels, commanding an aggregate of 4,909 guestrooms and suites and is one of the major hotel owners in Hong Kong. The present portfolio of properties comprises a balanced mix of full-service and select-service hotels, which are strategically positioned to cater to different market demands from a wide range of business and leisure customers.

Following the completion of the HK\$3,000.0 million 5-year bilateral term loan financing, secured by the Regal Kowloon Hotel, in March 2018, Regal REIT has further concluded two separate bilateral refinancing arrangements for the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel in October and November 2018, respectively. Through these refinancing arrangements, Regal REIT was able to achieve savings in interest expenses, which will help to reduce Regal REIT’s future financing costs.



BUSINESS OUTLOOK

Given the overhang of the trade disputes between the United States and China, the geopolitical tensions in different regions, the volatilities in financial markets as well as the undecided position on Brexit, there is still a high level of uncertainties in the global economic outlook.

However, as far as tourism in Hong Kong is concerned, the prospects can, nevertheless, be viewed with some optimism. The Hong Kong Government is committed to supporting the development of a wide range of diversified tourist attractions in Hong Kong, with a view to enhancing Hong Kong's overall attractiveness as a premier tourist destination. Meanwhile, the HKTB is stepping up on the promotion of a variety of events and festival activities from time to time, in order to develop a diversified portfolio of visitor source markets for Hong Kong. The commissioning of the two mega infrastructure projects, namely, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) and the Hong Kong-Zhuhai-Macao Bridge in September and October 2018, respectively, will greatly strengthen the transportation links for overseas and Mainland visitors to visit and depart from Hong Kong. Moreover, with the implementation of the Belt-and-Road Initiative, Guangdong-Hong Kong-Macao Bay Area (Greater Bay Area), RMB internationalisation, further interconnection between the capital markets of the Mainland and Hong Kong, Hong Kong's position as an international trade and logistics hub for goods and services will also be further enhanced.

For the first two months of 2019, the performance of the tourist market in Hong Kong remained strong. The REIT Manager firmly believes in the prospects of the tourism and hotel industry in Hong Kong and in Hong Kong's ability to maintain its position as a preferred tourist destination, for both business and leisure travellers alike. Being the only listed hospitality REIT with market concentration in Hong Kong, the REIT Manager is committed to maintaining Regal REIT's leading position as one of the pre-eminent hotels owners in Hong Kong and will continue to closely monitor the performance of each of its existing properties and to evaluate new investment opportunities that are yield accretive and beneficial for its continuing growth.

Taking this occasion, I would like to express my gratitude to my fellow Directors, staff members as well as all Unitholders for their continued support during the past year.

Lo Yuk Sui
Chairman

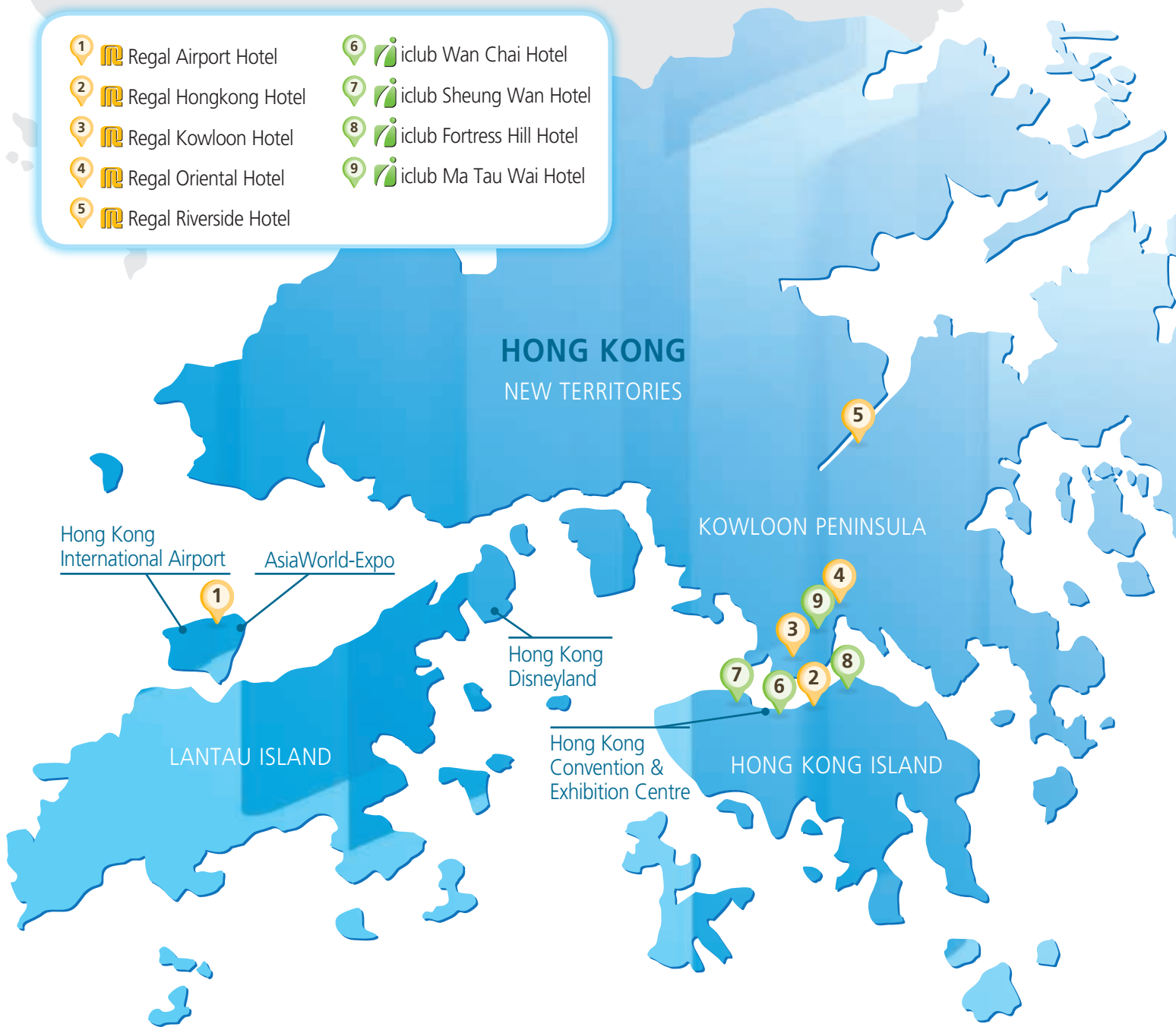
Regal Portfolio Management Limited
(as the REIT Manager of Regal REIT)

Hong Kong, 26th March, 2019













PROPERTY PORTFOLIO

Location of the Hotel Properties in Hong Kong

- | | |
|---|---|
| 1  Regal Airport Hotel | 6  iclub Wan Chai Hotel |
| 2  Regal Hongkong Hotel | 7  iclub Sheung Wan Hotel |
| 3  Regal Kowloon Hotel | 8  iclub Fortress Hill Hotel |
| 4  Regal Oriental Hotel | 9  iclub Ma Tau Wai Hotel |
| 5  Regal Riverside Hotel | |



Key to Hotel Facility Icons

- | | | | |
|--|--|---|---|
|  Room Count |  Gross Floor Area (sq.m.) |  Ballroom |  Swimming Pool |
|  Opening Year |  Restaurant |  Meeting Room |  Spa |
|  Approx. Covered Floor Area (sq.m.) |  Bar / Lounge |  Business Centre |  Club Lounge |

REGAL AIRPORT HOTEL



Duplex Suite















Regala Café & Dessert Bar



Grand Ballroom

9 Cheong Tat Road,
Hong Kong International Airport,
Chek Lap Kok, Hong Kong.
Tel: (852) 2286 8888
Fax: (852) 2286 8686
Email: info@airport.regalhotel.com
Website: airport.regalhotel.com

	1,171		960 sq.m.
	1999		24
	83,400 sq.m.		1
	71,988 sq.m.		2
	5		1
	1		1

- The only hotel connected directly to the airport passenger terminals
- Close to the Hong Kong-Zhuhai-Macao Bridge
- State-of-the-art meeting and conference venues of approximately 3,300 sq.m. with a built-in giant high-definition LED wall (9m x 4m)
- Easy access to AsiaWorld-Expo, Hong Kong Disneyland and the Big Buddha
- Airline "Self Check-in" kiosk
- World's Best Airport Hotel by Business Traveller UK Magazine for eleven consecutive years (2008-2018)
- Best Airport Hotel in Asia-Pacific by Business Traveller Asia-Pacific Magazine for seventeen consecutive years (2001-2017)
- World's Best Airport Hotel and Best Airport Hotel Asia in the Skytrax Awards for four consecutive years (2011-2014)
- World's Best Airport Hotel by Business Traveller US Magazine for two consecutive years (2013-2014)
- Travel Hall of Fame Award by TTG Asia Media Pte Ltd for four consecutive years (2015-2018)
- Best Airport Hotel in Asia-Pacific by TTG Asia Media Pte Ltd for ten consecutive years (2005-2014)
- Best Luxury Airport Hotel in the World Luxury Hotel Awards (2011, 2013-2015)
- Gold Benchmarking Certificate by EarthCheck (2018)
- Certified with ISO 50001: 2011 Energy Management Systems EnMS (2014-2018)
- Class of Excellence Wastewise Label by Hong Kong Awards for Environmental Excellence (2014-2016)

REGAL HONGKONG HOTEL



Executive Club Room














Alto 88



Rooftop Swimming Pool

88 Yee Wo Street,
Causeway Bay, Hong Kong.
Tel: (852) 2890 6633
Fax: (852) 2881 0777
Email: info@hongkong.regalhotel.com
Website: hongkong.regalhotel.com

 481	 239 sq.m.
 1993	 14
 32,000 sq.m.	 1
 25,090 sq.m.	 1
 3	 1
 1	

- Located in the heart of Causeway Bay, one of the popular shopping and commercial districts in Hong Kong
- Within walking distance from Victoria Park, Hong Kong Stadium - home to the annual spectacular Rugby Sevens Tournament and Happy Valley Racecourse where exciting horse races are staged regularly
- Convenient location to the Hong Kong Convention and Exhibition Centre
- Regal Ballroom, The Forum, meeting and conference centre, provide full range of facilities catering to the needs of business travellers, meeting and exhibition delegates
- Executive Club Floor features a collection of 82 tastefully appointed guestrooms and suites with a private lounge
- Customer Recommended Hotel Award by eLong.com (2016)
- Caring Company 5 Years+ Award by The Hong Kong Council of Social Service (2009-2016)
- Top 10 City-Nova Hotels of China by 10th China Hotel Starlight Awards (2015)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014-2016)
- Gold Benchmarking Certificate by EarthCheck (2018)
- Alto 88 achieved Italian Hospitality Seal by Ospitalità Italiana as certified restaurant (2014-2018)
- Alto 88 and Regal Palace voted as Hong Kong's Best Restaurant by Hong Kong Tatler Magazine (2002-2017)
- Regal Palace awarded Best of the Best Culinary Awards – Silver Award by Hong Kong Tourism Board (2015)
- Café Rivoli awarded Best-Ever Dining Awards by Weekend Weekly (2014)
- Alto 88 awarded Certificate of Excellence by TripAdvisor (2018)

REGAL KOWLOON HOTEL



Deluxe Suite













Mezzo



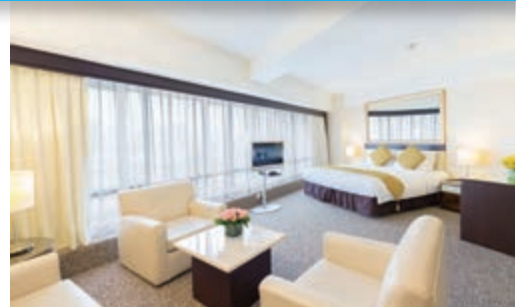
Executive Club Lounge

71 Mody Road, Tsimshatsui,
Kowloon, Hong Kong.
Tel: (852) 2722 1818
Fax: (852) 2369 6950
Email: info@kowloon.regalhotel.com
Website: kowloon.regalhotel.com

	600		1
	1982		353 sq.m.
	43,500 sq.m.		12
	31,746 sq.m.		1
	3		1

- Conveniently located in Tsim Sha Tsui East, a commercial and tourist district
- Within walking distance from the Tsim Sha Tsui ("TST"), East TST and Hung Hom MTR stations, 10-minute drive to the Hong Kong West Kowloon Station - the terminus of High Speed Rail (Hong Kong Section) with easy access to other cities of Mainland China
- Close to TST's major shopping centres and entertainment areas
- Close to waterfront with promenade
- Close to popular tourist attractions including Hong Kong Science Museum, Hong Kong Space Museum, Hong Kong Museum of Art, Hong Kong Cultural Centre, Clock Tower and the Star Ferry, etc.
- Gold Benchmarking Certificate by EarthCheck (2018)
- Caring Company Award by The Hong Kong Council of Social Service (2018)
- 10-year QTS Merchant Recognition for Mezzo by Hong Kong Tourism Board (2018)
- Partner Employer Award by Hong Kong General Chamber of Small and Medium Business (2016-2018)
- ISO22000:2005 on Food Safety Management System by SGS Hong Kong (2014-2018)
- Certificate of Excellence by TripAdvisor (2016-2017)
- Gold Circle Award by agoda.com (2011, 2012, 2013, 2016 and 2017)
- Bronze Award in Rakuten Travel Award by Rakuten Travel (2017)
- Regal Court and Mezzo voted as Hong Kong's Best Restaurants by Hong Kong Talter (2010-2017)

REGAL ORIENTAL HOTEL



Deluxe Suite













Meeting Room



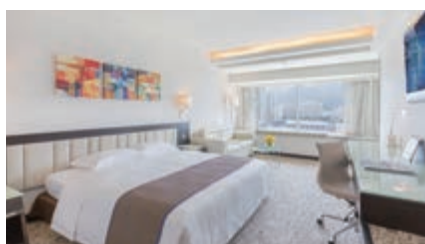
Regal Patisserie

30-38 Sa Po Road, Kowloon City,
Kowloon, Hong Kong.
Tel: (852) 2718 0333
Fax: (852) 2718 4111
Email: info@oriental.regalhotel.com
Website: oriental.regalhotel.com

 494	 1
 1982	 345 sq.m.
 27,300 sq.m.	 8
 22,601 sq.m.	 1
 5	 1

- The only full-service hotel located in the heart of Hong Kong's heritage district, Kowloon City, neighboring the Kai Tak Development site including the world-class Kai Tak Cruise Terminal
- Historic landmarks such as Wong Tai Sin Temple are in the immediate vicinity
- Easy access to the Kowloon Tong MTR station, Mong Kok and other business and shopping districts
- Spacious and quiet rooms set up with 1 King, 2 Queen or up to 4 single beds are offered to cater for different needs. Facilities include private lounge and gymnasium in a compact and cozy environment
- Gold Benchmarking Certificate by EarthCheck (2018)
- Caring Company Award by The Hong Kong Council of Social Service (2014-2018)
- Carbon Reduction Certificate by the Environmental Campaign Committee (2016-2018)
- Indoor Air Quality Certificate – Excellent Class by Environmental Protection Department (2014-2018)
- Halal Certificate by The Incorporated Trustees of The Islamic Community Fund of Hong Kong (2013-2018)
- CLP GREEN^{PLUS} Award 2018 – Outstanding Certificate by CLP Power Hong Kong Limited (2017-2018)
- Certificate of Appreciation by Christian Action's Signature Employer Program (2018)
- Certificate of Appointment by Christian Action Training Services Division – Trade Advisory Committee (Hotel) (2017-2018)
- "Good Employer Charter" Certificate by Labour Department (2018)

REGAL RIVERSIDE HOTEL



Deluxe Room















Taiwan Delight



The Forum

34-36 Tai Chung Kiu Road, Shatin,
New Territories, Hong Kong.
Tel: (852) 2649 7878
Fax: (852) 2637 4748
Email: info@riverside.regalhotel.com
Website: riverside.regalhotel.com

	1,138		474 sq.m.
	1986		12
	69,100 sq.m.		1
	59,668 sq.m.		1
	9		1
	2		1

- Largest hotel in Shatin overlooking the Shing Mun River
- Easy access to Hong Kong Island, Kowloon and the Mainland Border
- Within walking proximity to Shatin New Town Plaza, a mega shopping complex featuring over 900 shops
- Close to Sha Tin Racecourse, Hong Kong Science & Technology Parks, The Chinese University of Hong Kong and the Ten Thousand Buddhas Monastery
- The spacious guestrooms on the Executive Club Floors are equipped with full amenities and modern facilities. In simple contemporary design, the Executive Club Lounge provides exclusive business services and meeting room that bring a truly comfortable and convenient stay
- 2009 East Asian Games Headquarters Hotel and 2008 Olympic Equestrian Events Official Hotel
- Gold Benchmarking Certificate by EarthCheck (2018)
- Indoor Air Quality Certificate – Good Class by Environmental Protection Department (2012-2018)
- Quality Water Supply Scheme For Buildings – Fresh Water (Plus) (Basic Plan) Certificate by Water Supplies Department (2008-2018)
- Certificate of Appreciation by Christian Action’s Signature Employer Program (2018)
- Certificate of Appreciation by Rotary Life Planning Programmes 2018 (2018)
- “Good Employer Charter” Certificate by Labour Department (2018)
- Certificate of Appreciation in Hong Kong No Air-Con Night from Green Sense (2012-2018)

iclub WAN CHAI HOTEL



iSuite Premier





iSelect Premier



iLounge

211 Johnston Road,
Wan Chai, Hong Kong.
Tel: (852) 3963 6000
Fax: (852) 3963 6022
Email: info@wanchai.iclub-hotels.com
Website: wanchai.iclub-hotels.com

- 99 chic and trendy guestrooms and suites with interactive services and innovative facilities
- Convenient location with 3 minutes' walking distance to Wan Chai MTR station and 10 minutes' walk to Hong Kong Convention and Exhibition Centre
- Flexible room configuration accommodates up to 6 guests in a room, is ideal for families and travelling group
- Daily complimentary morning light refreshment and coffee & tea throughout the day in iLounge
- 24-hour self-service laundry and drying facilities
- 24-hour complimentary use of computer in iEngage
- 24-hour complimentary use of fitness facilities in Sweat Zone
- A completely smoke-free hotel
- Silver Benchmarking Certificate by EarthCheck (2018)
- Guest Rated Award "Good" by Expedia.com (2018)
- Loved by Guests Award by Hotels.com (2017)
- Indoor Air Quality Certificate – Good Class by Environmental Protection Department (2017)
- Excellent Guest Review Score Award by Hotels.com (2016)
- CarbonCare Champion - CarbonCare Label by Carbon Care Asia (2011-2015)

	99
	2009
	5,530 sq.m
	5,326 sq.m.
	1
	1

iclub SHEUNG WAN HOTEL



iSuite



iResidence



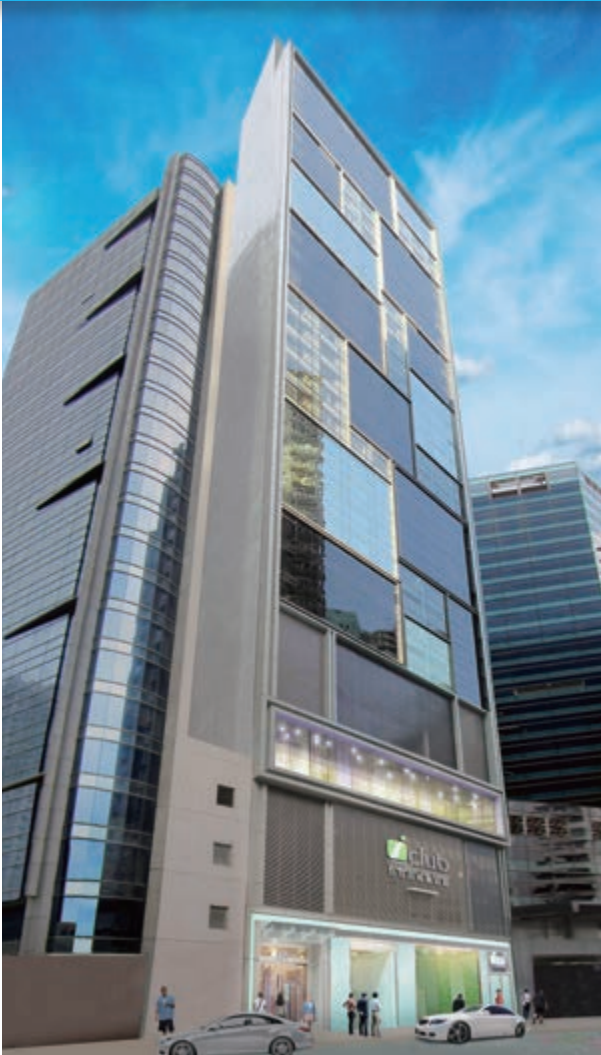
iLounge

138 Bonham Strand,
Sheung Wan, Hong Kong.
Tel: (852) 3963 6100
Fax: (852) 3963 6122
Email: info@sheungwan.iclub-hotels.com
Website: sheungwan.iclub-hotels.com

- A contemporary select-service hotel opened in June 2014 with 248 chic and trendy guestrooms and suites
- Convenient location with 3 minutes' walking distance to Sheung Wan MTR station, 7 minutes' walking distance to Hong Kong Macau Ferry Terminal and walking distance to Hollywood Road and Soho area
- Flexible room configuration accommodates up to 6 guests in a room, is ideal for families and travelling group
- Daily complimentary morning light refreshment and coffee & tea throughout the day in iLounge
- 24-hour self-service laundry and drying facilities
- 24-hour complimentary use of computer in iEngage
- 24-hour complimentary use of fitness facilities in Sweat Zone
- A completely smoke-free hotel
- Silver Benchmarking Certificate by EarthCheck (2018)
- Guest Rated Award "Excellent" by Expedia.com (2018)
- Best Serviced Apartment Award by GoHome.com.hk (2017-2018)
- Guest Review Award by Booking.com (2015-2018)
- Loved by Guests Award by Hotels.com (2017)
- Certificate of Excellence by TripAdvisor (2016-2017)
- ISO14064-1: 2006 by SGS Hong Kong (2016-2017)

	248
	2014
	9,600 sq.m.
	7,197 sq.m.
	1
	1

iclub FORTRESS HILL HOTEL



iPlus



Hotel Lobby



iLounge

18 Merlin Street,
North Point, Hong Kong.
Tel: (852) 3963 6300
Fax: (852) 3963 6322
Email: info@fortresshill.iclub-hotels.com
Website: fortresshill.iclub-hotels.com



338



2014



9,400 sq.m.



6,849 sq.m.



1



1

- A contemporary select-service hotel opened in September 2014 with 338 chic and trendy guestrooms
- Convenient location with 4 minutes' walking distance to Fortress Hill MTR station, 1 minute's walking distance to tram station and few minutes' drive to Causeway Bay, a vibrant entertainment & shopping district in Hong Kong
- Easy access to Victoria Park, the largest public park on Hong Kong Island
- Connecting Room allows flexibility to accommodate up to 4 guests, is ideal for families and travelling group
- Rooms on higher floors feature fascinating harbour view and Hong Kong skyline
- Daily complimentary morning light refreshment and coffee & tea throughout the day in iLounge
- 24-hour self-service laundry and drying facilities
- 24-hour complimentary use of computer in iEngage
- 24-hour complimentary use of fitness facilities in Sweat Zone
- A completely smoke-free hotel
- Carbon Reduction Certificate by Hong Kong Green Organisation Certification (2018)
- Silver Benchmarking Certificate by EarthCheck (2018)
- Indoor Air Quality Certificate - Good Class by Environmental Protection Department (2015-2017)
- Certificate of Excellence by TripAdvisor (2016)
- Business Hotel of the Year 2016 by GHM (Guangdong, Hong Kong, Macao) Hotel General Managers Society (2016)
- The Best City Boutique Hotel of China of the 16th China Hotel Golden Horse Award (2016)

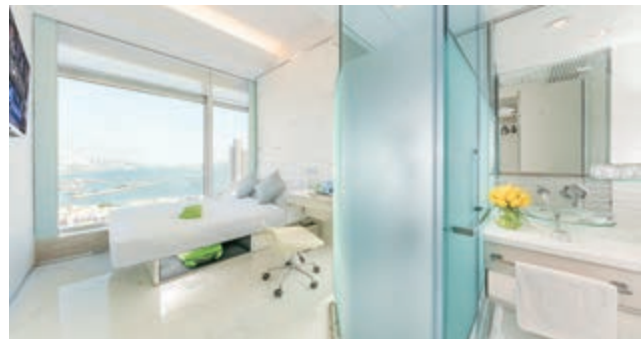
iclub MA TAU WAI HOTEL



Connecting Room



Hotel Lobby



iSelect Premier

8 Ha Heung Road,
Ma Tau Wai, Hong Kong.
Tel: (852) 3963 6600
Fax: (852) 3963 6622
Email: info@matauwai.iclub-hotels.com
Website: matauwai.iclub-hotels.com



340



2017



9,490 sq.m.



6,298 sq.m.



1



1

- A contemporary select-service hotel opened in 2017 with 340 chic and trendy guestrooms
- Free scheduled shuttle bus service to and from Whampoa MTR Station, Hung Hom Station, Hong Kong West Kowloon Station - the terminus of High Speed Rail (Hong Kong Section) and Airport Express Line Kowloon station
- MTR - Shatin to Central Link which is expected to be opened by 2020, walking distance to To Kwa Wan MTR station is only 2 minutes
- 3 minutes' walking distance to airport bus station
- Flexible room configuration accommodates up to 6 guests in a room, is ideal for families and travelling group
- Rooms on high floors feature fascinating harbour view and Hong Kong skyline
- Daily complimentary morning light refreshment in iLounge
- 24-hour self-service laundry and drying facilities
- 24-hour complimentary use of computer in iEngage
- 24-hour complimentary use of fitness facilities in Sweat Zone
- A completely smoke-free hotel
- City Hotel of the Year 2018 by GHM (Guangdong, Hong Kong, Macao) Hotel General Managers Society (2018)
- Indoor Air Quality Certificate – Good Class by Environmental Protection Department (2017-2018)

REPORT OF THE REIT MANAGER

The Directors of the REIT Manager herein present their report together with the audited consolidated financial statements of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries (collectively, the "Group") for the year ended 31st December, 2018.

LONG-TERM OBJECTIVES AND VISION OF REGAL REIT

The primary objectives of Regal REIT and the REIT Manager are to provide long-term stable, growing distributions and capital growth for the unitholders of Regal REIT (the "Unitholders") through active ownership of hotels and strategic investment in hotels, serviced apartments and/or commercial properties (including office and retail properties).

The vision of Regal REIT and the REIT Manager is to build up the existing portfolio of hotel properties in Hong Kong and to be a pre-eminent owner of quality international hotels and other properties with a primary focus in Hong Kong as well as to reinforce Regal REIT's status as a growing attractive option for investors.

ORGANISATION AND STRUCTURE OF REGAL REIT

Regal REIT was constituted by a trust deed dated 11th December, 2006 (as amended by a first supplemental deed dated 2nd March, 2007, a second supplemental deed dated 15th May, 2008, a third supplemental deed dated 8th May, 2009, a fourth supplemental deed dated 23rd July, 2010, a fifth supplemental deed dated 3rd May, 2011, a sixth supplemental deed dated 21st July, 2011 and a seventh supplemental deed dated 14th April, 2015) (collectively, the "Trust Deed") entered into between the REIT Manager and the Trustee of Regal REIT. Regal REIT is a collective investment scheme established in the form of a unit trust under Hong Kong laws and its units (the "Units") have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30th March, 2007 (the "Listing Date").

Regal REIT is regulated by the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), the Code on Real Estate Investment Trusts (the "REIT Code") and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), as if they were applicable to Regal REIT.

As at 31st December, 2018, the property portfolio of Regal REIT was comprised of (a) Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels"); and (b) iclub Wan Chai Hotel, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel (collectively, the "iclub Hotels").

The REIT Manager and the Trustee

The REIT Manager is licensed by the Securities and Futures Commission in Hong Kong (the "SFC") to undertake the regulated activity of asset management. The REIT Manager does not manage the five Initial Hotels or the four iclub Hotels directly.

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

The RHIHL Lessee and the Hotel Manager

The Initial Hotels are leased to Favour Link International Limited (the “RHIHL Lessee”), a wholly-owned subsidiary of Regal Hotels International Holdings Limited (“RHIHL”, together with its relevant subsidiaries, collectively, the “RHIHL Group”), with lease terms to expire on 31st December, 2020 under the relevant lease agreements and supplemental lease agreements (together, the “Initial Hotels Lease Agreements”). During the year, initial communication has been commenced between the Lessors and the Lessee for further extension for the five leases to go beyond 2020, the REIT Manager will make further disclosure once an agreement is reached.

Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL, was appointed as the hotel manager (the “Hotel Manager”) under long-term hotel management agreements to operate the Initial Hotels (the “Initial Hotels Management Agreements”) for a term of twenty years from 16th March, 2007. In December 2010, Regal REIT entered into another hotel management agreement with the Hotel Manager for the operation of the hotel portion of iclub Wan Chai Hotel for a term of ten years from 1st January, 2011 to 31st December, 2020 (the “Wan Chai Hotel Management Agreement”). Since 1st January, 2011, the iclub Wan Chai Hotel has been self-operated and not leased out by Regal REIT.

On 10th February, 2014, Regal REIT acquired the iclub Sheung Wan Hotel and leased it to the RHIHL Lessee for hotel operations for the period from 10th February, 2014 to 31st December, 2019 under a lease agreement (the “SW Lease Agreement”), which is extendable at the option of Regal REIT for a further five years. The Hotel Manager was appointed as the hotel manager of the iclub Sheung Wan Hotel under a 10-year hotel management agreement (the “SW Hotel Management Agreement”) commencing on 10th February, 2014.

On 28th July, 2014, Regal REIT also acquired the iclub Fortress Hill Hotel and leased it to the RHIHL Lessee for hotel operations for the period from 28th July, 2014 to 31st December, 2019 under a lease agreement (the “FH Lease Agreement”), which is extendable at the option of Regal REIT for a further five years. The Hotel Manager was also appointed as the hotel manager of the iclub Fortress Hill Hotel under a 10-year hotel management agreement (the “FH Hotel Management Agreement”) commencing on 28th July, 2014.

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

HOTEL PORTFOLIO

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

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

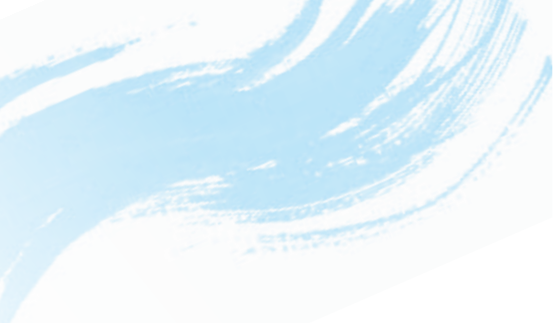
RENTAL AND REVENUE STRUCTURE

Initial Hotels – Rental Revenue Derived from Hotel Operations

Rental revenues, represented by base rent and variable rent in respect of the Initial Hotels, are derived from hotel operations, that is, from the hotel businesses leased to the RHIHL Group and managed by the Hotel Manager.

Specifically, total hotel revenue consists of the following:

- Room revenue, which is primarily driven by hotel room occupancy rates and achieved average room rates;
- Food and beverage revenue ("F&B Revenue"), which is primarily driven by banquet business, local patron and hotel room guests' usage of bars and restaurants; and
- Other income, which consists of ancillary hotel revenue and other items, which is mainly driven by hotel room occupancy rates which, in turn, affect telephone, internet and business centre usage, spa and health centres, parking and dry cleaning/laundry services.



Hotel operating costs and expenses consist of direct costs and expenses attributable to the respective operating departments, e.g. rooms department, food and beverage department, etc. as well as costs and expenses attributable to overhead departments such as the administration department, the sales and marketing department and the repairs and maintenance department.

Most categories of variable expenses, such as certain labour costs in housekeeping and utility costs, fluctuate with changes in the levels of room occupancies. The cost of goods sold in the hotel business, such as food products and beverages, fluctuate with guest frequency of dining in restaurants, bars and banquets.

The following performance indicators are commonly adopted in the hotel industry:

- Room occupancy rates;
- Average room rates; and
- RevPAR, room revenue divided by rooms available, or a product of the occupancy rates and the average room rates (RevPAR does not include F&B Revenue or other income, i.e. only room revenue).

Initial Hotels – Rental Structure and Market Rental Packages

Pursuant to the Initial Hotels Lease Agreements, for the years 2011 to 2020, the rental packages in respect of the Initial Hotels are determined on a yearly basis by a jointly appointed independent professional property valuer. The determinations include the amount of market rents (inclusive of the amount of base rent (the “Base Rent”) for each Initial Hotel, the variable rent (the “Variable Rent”) sharing percentage and the RHIHL Lessee’s contributions to the furniture, fixtures and equipment (the “FF&E”) reserve calculated as a percentage of total hotel revenue) to be applied for each of the Initial Hotels for the relevant respective years from 2011 to 2020, together with the amount of the security deposit required (collectively, the “IH Market Rental Package”). Regal REIT received rental income, comprised of Base Rent and Variable Rent, in respect of the Initial Hotels for the year 2018 from the RHIHL Lessee in accordance with the IH Market Rental Package for 2018.

Base Rent

For the year 2018, the aggregate Base Rent for the Initial Hotels was determined at HK\$751.0 million. Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis.

Variable Rent

Regal REIT received Variable Rent through the sharing of aggregate profits from the Initial Hotels’ operations over the Base Rent payments. According to the IH Market Rental Package for 2018, Regal REIT was entitled to Variable Rent based on 50% sharing of the excess of the aggregate net property income (“NPI”) over the aggregate Base Rent.

IH Market Rental Package for 2019

An independent professional property valuer, Mr. David Faulkner, was jointly appointed by the lessors and the RHIHL Lessee in June 2018 to conduct rent reviews for the Initial Hotels for 2019. According to the determination of the IH Market Rental Package for 2019, the aggregate amount payable by the RHIHL Lessee as Base Rent was determined to be HK\$776.0 million, with Variable Rent continuing to be based on sharing 50% of the excess of the aggregate NPI from the operations of the Initial Hotels over the aggregate Base Rent thereof in 2019. No FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessors.

The RHIHL Lessee is required to deliver third party guarantees as security deposits, effective on 1st January, 2019, for an aggregate amount of HK\$194.0 million, which is equivalent to three months' aggregate Base Rent of the Initial Hotels for 2019, issued by a licensed bank in Hong Kong. Details of the IH Market Rental Package for 2019 can be referred to in an announcement published by the REIT Manager on 5th October, 2018.

iclub Wan Chai Hotel – Revenue Structure

Hotel Portion

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

Non-hotel Portions

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

iclub Sheung Wan Hotel – Rental Structure and Market Rental Package

Pursuant to the SW Lease Agreement, the RHIHL Lessee is obligated to pay rentals in respect of the iclub Sheung Wan Hotel to Regal REIT for the period from 10th February, 2014 to 31st December, 2019, which is extendable at the option of Regal REIT for a further five years to 31st December, 2024.

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

Market rental reviews by a jointly appointed independent professional property valuer take place for each of the remaining periods of the lease term from 10th February, 2017 to 31st December, 2017, from 1st January, 2018 to 31st December, 2018 and from 1st January, 2019 to 31st December, 2019, and any extension thereof to determine the market rental components (comprising the Base Rent, Variable Rent and lessee's contribution to the FF&E reserve) together with the amount of the security deposit required (collectively, the "SW Market Rental Package").

SW Market Rental Package for 2018

The independent professional property valuer, Mr. David Faulkner, was jointly appointed in June 2017 to determine the SW Market Rental Package for 2018. According to the determination of SW Market Rental Package for 2018, the Base Rent payable by the RHIHL Lessee is HK\$42.0 million, with Variable Rent to be based on 50% of the excess of the NPI over the Base Rent. No FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessor. The RHIHL Lessee has provided a third party guarantee as a security deposit for an amount of HK\$10.775 million, which is equivalent to three months' Base Rent together with rates and Government rent of the iclub Sheung Wan Hotel for 2018.

SW Market Rental Package for 2019

The same independent professional property valuer, Mr. David Faulkner, was jointly appointed in June 2018 to determine the SW Market Rental Package for 2019. According to the determination of the SW Market Rental Package for 2019, the Base Rent to be payable by the RHIHL Lessee is HK\$46.0 million, with Variable Rent to be based on 50% of the excess of the NPI over the Base Rent. No FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessor.

The RHIHL Lessee is required to provide a third party guarantee as a security deposit, effective on 1st January, 2019, for an amount of HK\$11.751 million, which is equivalent to three months' Base Rent together with rates and Government rent of the iclub Sheung Wan Hotel for 2019. Details of the SW Market Rental Package for 2019 can be referred to in an announcement published by the REIT Manager on 5th October, 2018.

iclub Fortress Hill Hotel – Rental Structure and Market Rental Package

Pursuant to the FH Lease Agreement, the RHIHL Lessee is obligated to pay rentals in respect of the iclub Fortress Hill Hotel to Regal REIT for the period from 28th July, 2014 to 31st December, 2019, which is extendable at the option of Regal REIT for a further five years to 31st December, 2024.

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

Market rental reviews by a jointly appointed independent professional property valuer take place for each of the remaining periods of the lease term from 28th July, 2017 to 31st December, 2018 and from 1st January, 2019 to 31st December, 2019, and any extension thereof to determine the market rental components (comprising the Base Rent, Variable Rent and lessee's contribution to the FF&E reserve) together with the amount of the security deposit required (collectively, the "FH Market Rental Package").

FH Market Rental Package for 2017/18

The independent professional property valuer, Mr. David Faulkner, was jointly appointed in January 2017 to conduct a rent review for the iclub Fortress Hill Hotel for the period from 28th July, 2017 to 31st December, 2018 (the "FH 2017/18 Lease Year"). According to the determination of FH Market Rental Package for the FH 2017/18 Lease Year, the pro-rated Base Rent payable by the RHIHL Lessee for the first period of the FH 2017/18 Lease Year (from 28th July, 2017 to 31st December, 2017) was HK\$17.61 million, while the Base Rent for the second period of the FH 2017/18 Lease Year (1st January, 2018 to 31st December, 2018) was HK\$42.39 million, with Variable Rent to be based on 50% of the excess of the NPI over the Base Rent and no FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessor for the whole period of the FH 2017/18 Lease Year.

The RHIHL Lessee has provided a third party guarantee as a security deposit for an amount of HK\$11.030 million for the period from 1st January, 2018 to 31st December, 2018, which is equivalent to three months' Base Rent together with rates and Government rent of the iclub Fortress Hill Hotel.

FH Market Rental Package for 2019

The same independent professional property valuer, Mr. David Faulkner, was jointly appointed in June 2018 to determine the FH Market Rental Package for 2019. According to the determination of the FH Market Rental Package for 2019, the Base Rent to be payable by the RHIHL Lessee is HK\$46.0 million, with Variable Rent to be based on 50% of the excess of the NPI over the Base Rent. No FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessor. The RHIHL Lessee is required to provide a third party guarantee as a security deposit, effective on 1st January, 2019, for an amount of HK\$11.879 million, which is equivalent to three months' Base Rent together with rates and Government rent of the iclub Fortress Hill Hotel for 2019. Details of the FH Market Rental Package for 2019 can be referred to in an announcement published by the REIT Manager on 5th October, 2018.

iclub Ma Tau Wai Hotel – Rental Structure

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

Regal REIT receives fixed rentals for the leasing of the iclub Ma Tau Wai Hotel commencing from 4th September, 2017 to 3rd September, 2022. Annual rental receipts for the initial five years of the lease term have been determined to be HK\$54.4 million, HK\$57.8 million, HK\$61.2 million, HK\$64.6 million and HK\$68.0 million, respectively. During the year, Regal REIT received rentals for HK\$55.5 million and earned pro-rated fixed rental income of HK\$61.1 million recognised on the straight-line basis.

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

Furniture, Fixtures & Equipment Reserve

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

During the year, Regal REIT contributed amounts equal to 2% of the total hotel revenue (i.e. the total of room revenue, food and beverage revenue and/or other income of the hotel properties) for each month and, as a result, HK\$44.8 million was contributed to the FF&E reserve with corresponding expenditures of HK\$41.4 million being recorded for the purposes intended.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2018 are set out in the consolidated financial statements.

Review of the Economic Environment in 2018

Based on the Global Economic Prospects report issued by the World Bank Group in January 2019, global growth is moderating as the recovery in trade and manufacturing activity loses steam. Despite ongoing negotiations, trade tensions among major economies remain elevated. These tensions, combined with concerns about softening global growth prospects, have weighed on investor sentiment and contributed to declines in global equity prices. Borrowing costs for emerging market and developing economies (EMDEs) have increased, in part as major advanced-economy central banks continue to withdraw policy accommodation in varying degrees. A strengthening U.S. dollar, heightened financial market volatility, and rising risk premiums have intensified capital outflows and currency pressures in some large EMDEs, with some vulnerable countries experiencing substantial financial stress¹.

The U.S. economy is experiencing robust growth, with strength in domestic demand. There are signs that productivity and labor participation are increasing. Nominal wages have been outpacing inflation, resulting in modest real wage gains. Fiscal and monetary policies will stimulate activity in the near term but are likely to become a drag by 2020. A slowdown in exports has been the primary driver of cooling Euro Area activity. While headline inflation has risen to target, it is largely due to a temporary acceleration in energy prices¹.

GDP growth in China reached 6.6%² in 2018 and remains robust, in part reflecting resilient consumption. However, industrial production and new export orders have moderated, asset prices have experienced downward pressures, and sovereign bond spreads have risen amid trade tensions. Domestic demand is projected to remain robust aided by policies to boost consumption. Supportive fiscal and monetary policies undertaken or announced so far are expected to largely offset the negative impact of higher tariffs; however, additional stimulus may have the undesirable effect of slowing the deleveraging and de-risking process¹.

For 2018 as a whole, Hong Kong's GDP increased about 3.0%³ in real terms over 2017. This was still higher than the 2.8% growth trend over the past decade³. As per a research report from Bank of China (Hong Kong) Limited, numerous positive factors, such as moderate global economic recovery, a stabilizing tourism sector, relatively low interest environment, full employment and government's somewhat expansionary fiscal policies, etc. supported the economic growth but the momentum has been slowing recently⁴.

¹ Source: Publications, World Bank Group, "Global Economic Prospects – Darkening Skies", January 2019.

² Source: Press Release, National Bureau of Statistics of China, "National Economic Performance Maintained with an Appropriate Range in 2018 with Main Development Goals Achieved", 21st January, 2019.

³ Source: Hong Kong Economic Reports, www.hkeconomy.gov.hk, "2018 Economic Background and 2019 Prospects", 27th February, 2019.

⁴ Source: Market Information, Bank of China (Hong Kong) Limited, "Hong Kong Economic Outlook in 2019", December 2018.

Visitor Arrivals in Hong Kong, 2018 versus 2017⁵

Visitors to Hong Kong by Geographical Regions	2018 (Percentage of total visitors)	2018 (No. of visitors)	2017 (No. of visitors)	Variance (No. of visitors)	Variance (%)
Mainland China	78.34%	51,038,230	44,445,259	6,592,971	14.8%
South & Southeast Asia	5.48%	3,571,671	3,626,158	(54,487)	(1.5%)
North Asia	4.16%	2,709,184	2,717,680	(8,496)	(0.3%)
Taiwan	2.96%	1,925,234	2,010,755	(85,521)	(4.3%)
Europe, Africa & the Middle East	3.43%	2,231,983	2,202,302	29,681	1.3%
The Americas	2.87%	1,872,540	1,781,819	90,721	5.1%
Australia, New Zealand & South Pacific	1.08%	703,789	687,127	16,662	2.4%
Macau SAR/Not identified	1.68%	1,094,924	1,001,057	93,867	9.4%
Totals	100%	65,147,555	58,472,157	6,675,398	11.4%
Overnight visitors included in above	44.9%	29,262,701	27,884,543	1,378,158	4.9%

Hong Kong's tourism market experienced a good year in 2018. The number of visitor arrivals increased by approximately 6.7 million to a new record high of 65.1 million, showing an increase of 11.4% year-on-year.

A major part of the Mainland China visitors were Shenzhen residents, who were mostly same day visitors and, therefore, made no significant contribution to the local hotel market. Mainland China visitors increased and recorded a growth rate of 14.8%, with arrivals aggregating approximately 51.0 million, representing 78.3% of the total visitor arrivals to Hong Kong in 2018.

Arrivals from short haul markets comprising other Asian regions (including North Asia, South & Southeast Asia, Taiwan and Macau) were reported as 9.3 million and accounted for 14.3% of total arrivals, representing a negative growth rate of 0.6% as compared to 2017.

For the long haul markets, a growth rate of 2.9% was recorded, with total arrivals of approximately 4.8 million, reflecting a mild recovery. Visitors from the Americas displayed a moderate increase with a growth rate of 5.1% and represented 2.9% of the total number of visitors. Overall, visitor arrivals from the European, Africa and the Middle East markets recorded a growth rate of 1.3%; with the visitor number reaching approximately 2.2 million and accounting for 3.4% of total arrivals.

Similar to other international gateway cities, in-bound visitor numbers drive the core lodging demand for the local hotel industry. Overnight visitors aggregated approximately 29.3 million, representing 44.9% of total arrivals and showing an increase of 4.9% year-on-year.

⁵ Source: Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Dec 2018", January 2019; "Visitor Arrival Statistics – Dec 2017", January 2018; the REIT Manager.

Review of Hotel Room Supply in Hong Kong in 2018 and Forecast for 2019

In 2018, the hotel room supply in Hong Kong reported growth of 3.2% over 2017. This represented an annual increase of 2,530 units from 78,935 to 81,465 rooms. During the year under review, 14 new hotel properties were opened and the number rose from 277 to 291, posting year-on-year growth of 5.1%. A continuing increase in the new room supply by 5,467 units in 2019 with 28 new hotels is anticipated. By the end of 2019, it is projected that the hotel room supply will reach 86,932, with an increase of about 6.7% over the preceding year⁶.

Industry Performance

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

Category	Hong Kong Hotel Market Performance (2018 versus 2017) ⁷					
	Room Occupancy Rates		Average Room Rates		RevPAR	
	2018	2017	2018	2017	2018	2017
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	89	86	2,152	2,068	1,915	1,778
High Tariff B	91	90	1,178	1,067	1,072	961
Medium Tariff	93	91	797	729	741	663
All Hotels	91	89	1,375	1,288	1,251	1,146

In 2018, the overall hotel occupancy rate reached 91.0% and was up by 2.0 percentage points when compared to 2017. The industry-wide average room rate recorded an increase of 6.8% year-on-year to HK\$1,375 per night. The resulting effect led to a growth of 9.2% on the industry-wide RevPAR or an increase of HK\$105 year-on-year to HK\$1,251.

⁶ Source: Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Dec 2018", February 2019; the REIT Manager.

⁷ Source: Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Dec 2018", January 2019; the REIT Manager.

Performance Highlights of Regal REIT

Regal REIT currently has an aggregate of 4,909 hotel guestrooms and suites in nine hotel properties, with a total gross floor area of approximately 236,763 square meters, that are strategically located in Hong Kong. The aggregate property valuation of Regal REIT's property portfolio amounted to HK\$27,703.0 million as at 31st December, 2018, representing an increase of HK\$1,911.0 million as compared to the valuation of HK\$25,792.0 million as at 31st December, 2017. The increase was largely attributable to the fair value gains in the property valuations as a result of improved hotel performance in 2018 as well as more promising projections in the future outlook. Overall, the occupancy rate of the property portfolio of Regal REIT was comparable to the average Hong Kong hotel market for 2018.

The financial performance of Regal REIT with regard to operating results and net asset value rely on the underlying performance of the respective hotel businesses operated by the RHIHL Lessee and the self-operated iclub Wan Chai Hotel, all under the management of the Hotel Manager.

Performance of the Initial Hotels

Total hotel revenue, gross operating profit ("GOP"), NPI and statistics for the combined Initial Hotels for FY2018 versus FY2017 are set out below.

	FY2018 HK\$'million	FY2017 HK\$'million	Variance HK\$'million	Variance (%)
Operating Results				
Room revenue	1,378.9	1,265.0	113.9	9.0%
Food and beverage revenue	626.5	668.0	(41.5)	(6.2%)
Other income	32.0	34.0	(2.0)	(5.7%)
Total hotel revenue	2,037.4	1,967.0	70.4	3.6%
Operating expenses	(1,136.0)	(1,132.8)	(3.2)	(0.3%)
Gross operating profit	901.4	834.2	67.2	8.1%
Other expenses	(70.3)	(66.9)	(3.4)	5.1%
Net rental income	44.6	40.0	4.6	11.6%
Net property income	875.7	807.3	68.4	8.5%
Statistics				
Average room rate	HK\$1,096.74	HK\$1,021.29	HK\$75.45	7.4%
Occupancy rate	88.7%	87.4%	1.3%	1.5%
RevPAR	HK\$972.38	HK\$892.31	HK\$80.07	9.0%
Total available room nights	1,417,660	1,417,660	—	—
Occupied room nights	1,256,916	1,238,633	18,283	1.5%

During the year under review, total hotel revenue of the Initial Hotels achieved HK\$2,037.4 million (2017: HK\$1,967.0 million), representing an increase of HK\$70.4 million or 3.6%. GOP and NPI attained HK\$901.4 million and HK\$875.7 million or increases of HK\$67.2 million and HK\$68.4 million, respectively, as compared to the preceding year.

The average occupancy rate of the Initial Hotels attained 88.7%, posting an increase of 1.5 percentage point as compared to the 87.4% recorded in the preceding year. Despite heavy market competition and other economic factors, the average daily room rate of the Initial Hotels still posted an increase of 7.4% to HK\$1,096.74 in 2018 from HK\$1,021.29 in 2017. As a result, the RevPAR of the Initial Hotels showed an increase of 9.0% from HK\$892.31 in 2017 to HK\$972.38 in 2018.

For 2018, the guest mix of the Initial Hotels was comprised mainly of 58% business travellers and 33% leisure travellers, with the business traveller proportion being higher than the 14% as reflected in the statistics published by the Hong Kong Tourism Board⁸. This proportion re-affirmed that the Initial Hotels continue to successfully attract business travellers to their full service commercial hotels in prime locations; while the iclub Hotels are well-received by the leisure-seeking travellers owing to their easy accessibility and convenient locations. On the other hand, customer mix by origin recorded proportions of China, Asia and other regions of 42%, 42% and 16%, respectively.

Base Rent

According to the IH Market Rental Package for 2018, Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis. During the year under review, Regal REIT earned and received aggregate Base Rent of HK\$751.0 million, representing a monthly Base Rent of HK\$62.58 million.

Variable Rent

Likewise, Regal REIT received Variable Rent through the sharing of aggregate profits from the Initial Hotels' operations over the Base Rent payments. For the year under review, as the aggregate NPI from hotel operations of the Initial Hotels was HK\$875.7 million, Regal REIT was entitled to a Variable Rent of HK\$62.3 million based on 50% sharing of the excess of the aggregate NPI over the aggregate Base Rent.

Performance of iclub Wan Chai Hotel

The iclub Wan Chai Hotel continued to display strong demand in 2018. The average room rate improved 9.1% from HK\$1,011.37 in 2017 to HK\$1,103.12 in 2018 for the hotel portion and the year-round occupancy rate achieved an average of 95.9% as compared to that of 95.3% for the previous year. Meanwhile, the non-hotel portions of the iclub Wan Chai Hotel, comprising the portion of the ground floor and other areas on the 27th to 29th floor of the premises, continued to being leased to tenants throughout the year.

Hotel portion

For the year ended 31st December, 2018, the hotel portion contributed gross hotel revenue of HK\$38.3 million and incurred operating costs and expenses to HK\$19.1 million.

Non-hotel portions

For the year ended 31st December, 2018, rental income of HK\$7.2 million was generated from the leasing of the non-hotel portions.

⁸ Source: Research, Hong Kong Tourism Board, "Visitors' Purpose of Visit by Major Market Areas", January 2019; the REIT Manager.

Performance of iclub Sheung Wan Hotel

For 2018, the iclub Sheung Wan Hotel achieved an overall occupancy rate of 96.1% with a year-round average room rate of approximately HK\$948.6.

Base Rent

According to the SW Market Rental Package for 2018, Regal REIT received Base Rent in the form of cash on a monthly basis. During the year, Regal REIT earned and received HK\$42.0 million.

Variable Rent

Regal REIT received Variable Rent through the sharing of profit from the iclub Sheung Wan Hotel's operations over the Base Rent earned. During the year, the NPI from hotel operations of the iclub Sheung Wan Hotel was HK\$51.2 million, from which Regal REIT is entitled to Variable Rent of HK\$4.6 million based on 50% sharing of the excess of the NPI over the Base Rent.

Performance of iclub Fortress Hill Hotel

For 2018, the iclub Fortress Hill Hotel achieved an overall occupancy rate of 89.8% with a year-round average room rate of approximately HK\$714.8.

Base Rent

According to the FH Market Rental Package for 2018, Regal REIT received Base Rent in the form of cash on a monthly basis. During the year, Regal REIT earned and received HK\$42.4 million.

Variable Rent

Regal REIT received Variable Rent through the sharing of profit from the iclub Fortress Hill Hotel's operations over the Base Rent earned. During the year, the NPI from hotel operations of the iclub Fortress Hill Hotel was HK\$45.6 million, from which Regal REIT is entitled to Variable Rent of HK\$1.6 million based on 50% sharing of the excess of the NPI over the Base Rent.

Performance of iclub Ma Tau Wai Hotel

The iclub Ma Tau Wai Hotel commenced hotel operations in May 2017 and its performance is considered satisfactory for a new start-up hotel. For 2018, the iclub Ma Tau Wai Hotel achieved an overall occupancy rate of 84.4% with a year-round average room rate of approximately HK\$614.9.

During the year under review, Regal REIT earned fixed rental income as pre-determined in accordance with the terms of the MTW Lease Agreement that took effect from the completion date of acquisition on 4th September, 2017. Regal REIT earned fixed rental income of HK\$61.1 million, recognised on the straight-line basis, from the leasing of the iclub Ma Tau Wai Hotel.

Capital Addition Projects

Regal REIT undertakes, in addition to the FF&E reserve, the funding of capital addition projects with the objective of improving portfolio competitiveness and product offerings to enhance income generating capabilities, profitability of the hotel property portfolio and enable special utilisations. Other capital addition projects may also be conducted to comply with licensing requirements or to conform to legislation enactments and standards. Regal REIT continues to invest in capital addition projects as ongoing initiatives to upgrade the quality and standards of the rooms and facilities for its hotel properties. Regal REIT incurred capital expenditures of HK\$29.2 million on major capital additions and completed renovation work on over 320 hotel rooms and other facilities during the year.

Net Rental and Hotel Income

The aggregate net rental and hotel income for Regal REIT for the year ended 31st December, 2018 (as compared to the prior year) is set out below.

	2018		2017	
	HK\$'million	%	HK\$'million	%
Initial Hotels				
Base Rent	751.0	73.5	733.0	76.6
Variable Rent	62.3	6.1	37.1	3.9
Other income	11.4	1.1	11.4	1.2
iclub Sheung Wan Hotel				
Rental income	46.6	4.6	46.3	4.8
iclub Fortress Hill Hotel				
Rental income	44.0	4.3	68.2	7.1
iclub Ma Tau Wai Hotel				
Rental income	61.1	6.0	19.9	2.1
iclub Wan Chai Hotel				
Gross hotel revenue	38.3	3.7	34.9	3.6
Rental income	7.2	0.7	6.9	0.7
Gross rental and hotel income	1,021.9	100.0	957.7	100.0
Property operating expenses	(12.2)	(1.2)	(12.5)	(1.3)
Hotel operating expenses	(19.1)	(1.9)	(18.1)	(1.9)
Net rental and hotel income	990.6	96.9	927.1	96.8

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

Valuation of the Property Portfolio

As at 31st December, 2018, Regal REIT's overall property portfolio was valued at HK\$27,703.0 million (31st December, 2017: HK\$25,792.0 million). The property portfolio is comprised of (i) the five Initial Hotels, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel, the iclub Ma Tau Wai Hotel and the non-hotel portions of iclub Wan Chai Hotel that are classified as investment properties for an aggregate amount of HK\$26,994.0 million; and (ii) the owner-operated hotel portion of iclub Wan Chai Hotel which is classified as property, plant and equipment for an amount of HK\$709.0 million.

As disclosed in the past, the current sub-lease of the Regal Airport Hotel with the Airport Authority Hong Kong will expire in December 2028 if no extension agreement is reached on or before the expiry. Under this circumstance, the assessment of the market value of the property will be significantly affected by the decreasing term of the sub-lease until an agreement can be reached on a sub-lease extension. Accordingly, continuing reductions in its market valuations can be expected in the forthcoming years to reflect the diminishing leasehold interest in accordance with the prevailing valuation standard. However, during the remaining term of the sub-lease, the annual distributable income will not be affected as changes in fair values are non-cash items.

Valuations of the properties as at 31st December, 2018 and 31st December, 2017 are tabulated below.

Property	Location	31 Dec 2018 Valuation HK\$ million	31 Dec 2017 Valuation HK\$ million	% Change
<i>Initial Hotels:</i>				
Regal Airport Hotel	Lantau Island	3,250	3,700	-12.2%
Regal Hongkong Hotel	HK Island	4,724	4,220	+11.9%
Regal Kowloon Hotel	Kowloon	6,381	5,650	+12.9%
Regal Oriental Hotel	Kowloon	2,137	1,890	+13.1%
Regal Riverside Hotel	New Territories	5,431	4,800	+13.1%
		21,923	20,260	+8.2%
<i>iclub Hotels:</i>				
iclub Wan Chai Hotel	HK Island	930	877	+6.0%
iclub Sheung Wan Hotel	HK Island	1,660	1,560	+6.4%
iclub Fortress Hill Hotel	HK Island	1,700	1,625	+4.6%
iclub Ma Tau Wai Hotel	Kowloon	1,490	1,470	+1.4%
Overall property portfolio		27,703	25,792	+7.4%

The valuations of the property portfolio as at 31st December, 2018 were conducted by CBRE Limited ("CBRE"), the new principal valuer of Regal REIT appointed by the Trustee for a term of three years commencing from December 2018 to succeed Colliers International (Hong Kong) Limited on its retirement pursuant to the provisions of the REIT Code.

CBRE, an independent professional property valuer, assessed the market values of the property portfolio subject to the lease agreements, hotel operations and the hotel management agreements and in accordance with "The HKIS Valuation Standards (2017 Edition)", the Listing Rules and the REIT Code. CBRE used the discounted cash flow ("DCF") method based on key assumptions such as hotel room occupancies, hotel average room rates, terminal capitalisation rates and discount rates. The market approach was also used as a check on the valuation derived from the DCF method.

FINANCIAL REVIEW AND FINANCING STRATEGY

The REIT Manager has continued to adopt a prudent approach to ensure that the leverage ratios do not exceed thresholds prescribed under the REIT Code and financial covenants of the relevant loan facility agreements. As at 31st December, 2018, Regal REIT had bank loan facilities of up to HK\$11,303.0 million with staggered maturity terms.

Regal REIT Medium Term Note Programme, Note Issuance and Repayment

In January 2013, Regal REIT implemented the establishment and listing of a US\$1.0 billion medium term note programme (the "MTN Programme") which was intended to serve as a funding platform to finance the planned expansion of Regal REIT. Subsequently, two series of notes were issued in March 2013 and May 2013, each with a term of five years, at an aggregate nominal principal amount of HK\$1.95 billion, with maturities to March 2018 and May 2018, respectively. As at 31st December, 2018, no notes under the MTN Programme were outstanding as these were repaid in full on their respective due dates on 22nd March, 2018 and 22nd May, 2018.

Loan Financing

As at 31st December, 2018, Regal REIT had loan facilities aggregating HK\$11,303.0 million, comprised of: (a) term and revolving loan facilities of up to HK\$5,500.0 million secured by four of the five Initial Hotels; (b) a term loan facility of HK\$3,000.0 million secured by Regal Kowloon Hotel; (c) a term loan facility of HK\$440.0 million secured by the iclub Wan Chai Hotel; (d) term and revolving loan facilities of up to HK\$790.0 million secured by the iclub Sheung Wan Hotel; (e) term and revolving loan facilities of up to HK\$825.0 million secured by the iclub Fortress Hill Hotel; and (f) a term loan facility of HK\$748.0 million secured by the iclub Ma Tau Wai Hotel.

Financing for the Initial Hotels

On 12th September, 2016, Regal REIT, through wholly-owned subsidiaries, entered into a facility agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$1,000.0 million (the "2016 IH Facilities"), for a term of five years to September 2021. The 2016 IH Facilities are secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. The 2016 IH Facilities carry a Hong Kong Interbank Offered Rate (HIBOR)-based interest margin. As at 31st December, 2018, the 2016 IH Facilities had an outstanding term loan facility of HK\$4,500.0 million and the full amount of the revolving loan facility was un-utilised.

On 8th March, 2018, Regal REIT, through a wholly-owned subsidiary, arranged a bilateral term loan facility of HK\$3,000.0 million (the "2018 RKH Facility"), secured by a mortgage over the Regal Kowloon Hotel. The 2018 RKH Facility was drawn down mainly for refinancing the notes under the MTN Programme that matured in March 2018 and May 2018, respectively. The 2018 RKH Facility bears a HIBOR-based interest margin and has a term of five years to March 2023. As at 31st December, 2018, the outstanding amount of the 2018 RKH Facility was HK\$3,000.0 million, representing the full amount of the term loan facility.

Financing for iclub Wan Chai Hotel

A term loan facility agreement for a principal amount of HK\$440.0 million (the "2014 WC Facility"), with a term of five years to December 2019, was entered into by a wholly-owned subsidiary of Regal REIT on 22nd December, 2014. The 2014 WC Facility is secured by the iclub Wan Chai Hotel and bears a HIBOR-based interest margin throughout its term. As at 31st December, 2018, the outstanding amount on the 2014 WC Facility was HK\$440.0 million, representing the full amount of the term loan facility.

Financing for iclub Sheung Wan Hotel

On 19th October, 2018, Regal REIT, through a wholly-owned subsidiary, arranged a new bilateral loan facility of up to HK\$790.0 million, comprised of a term loan facility of HK\$632.0 million and a revolving loan facility of up to HK\$158.0 million, secured by the iclub Sheung Wan Hotel (the “2018 SW Facilities”) to replace the then term and revolving loan facilities of HK\$790.0 million. The 2018 SW Facilities bear a HIBOR-based interest margin and have a term of five years to October 2023. As at 31st December, 2018, the utilised amount of the 2018 SW Facilities was HK\$632.0 million, representing the full amount of the term loan facility.

Financing for iclub Fortress Hill Hotel

Regal REIT, through a wholly-owned subsidiary, arranged another new bilateral loan facility of up to HK\$825.0 million, comprised of a term loan facility of HK\$660.0 million and a revolving loan facility of up to HK\$165.0 million, secured by the iclub Fortress Hill Hotel (the “2018 FH Facilities”) on 29th November, 2018 to replace the then term and revolving loan facilities of HK\$825.0 million. The 2018 FH Facilities bear a HIBOR-based interest margin and have a term of five years to November 2023. As at 31st December, 2018, the outstanding amount of the 2018 FH Facilities was HK\$660.0 million, representing the full amount of the term loan facility.

Financing for iclub Ma Tau Wai Hotel

On 4th September, 2017, Regal REIT, through a wholly-owned subsidiary, arranged a term loan facility of HK\$748.0 million, secured by the iclub Ma Tau Wai Hotel (the “2017 MTW Facility”) with a term of three years to 2020 and bearing a HIBOR-based interest margin. As at 31st December, 2018, the outstanding amount of the 2017 MTW Facility was HK\$748.0 million, representing the full amount of the term loan facility.

Managing Fluctuations in Interest Rates

During the year under review, the 1-month HIBOR fluctuated within a range of about 0.668% per annum to 2.398% per annum. As at 31st December, 2018, the interest cost components in respect of the aggregate loan facilities are all subject to floating HIBOR-based interest rates. The REIT Manager is continuously monitoring the interest rate trends and assessing any need to contain or hedge the exposure of the finance costs and any impact that may arise from interest rate hikes.

Gearing and Cash

As at 31st December, 2018, the gearing ratio of Regal REIT was 35.7% (2017: 37.8%), being the gross amount of the outstanding loans aggregating HK\$9,980.0 million, which takes into account: (a) the 2016 IH Facilities of HK\$4,500 million; (b) the 2018 RKH Facility of HK\$3,000.0 million; (c) the 2014 WC Facility of HK\$440.0 million; (d) the 2018 SW Facilities of HK\$632.0 million; (e) the 2018 FH Facilities of HK\$660.0 million; and (f) the 2017 MTW Facility of HK\$748.0 million, as compared to the total gross assets of Regal REIT of HK\$27,981.8 million. The gearing ratio is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of HK\$130.3 million in unrestricted and HK\$68.5 million in restricted cash balances and bank deposits, and unutilised revolving loan facilities of HK\$1,323.0 million as at 31st December, 2018. Regal REIT maintains adequate cash reserves and revolving loan facilities and receives timely payments of rental income to satisfy its financial commitments as well as working capital requirements on an on-going basis.

As at 31st December, 2018, all nine Regal REIT’s properties with an aggregate carrying value of HK\$27,703.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

DISTRIBUTABLE INCOME AND DISTRIBUTION POLICY

Total Distributable Income (as defined in the Trust Deed) is “the amount calculated by the REIT Manager (based on the audited financial statements of Regal REIT for that Financial Year) as representing the consolidated audited net profit after tax of Regal REIT and the Special Purpose Vehicles (as defined in the offering circular dated 19th March, 2007 issued in connection with the listing of Units) for that Financial Year, as adjusted for the Adjustments”. Adjustments are made to the distributable income to eliminate the effects of certain non-cash items and cash items which have been recorded in Regal REIT’s consolidated income statement, including “difference in accounting rental income and contractual cash rental income”, “fair value changes on investment properties”, “amounts set aside for the FF&E reserve”, “amortisation of debt establishment costs”, “depreciation”, “foreign exchange differences, net” and “deferred tax charges”.

Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT’s Total Distributable Income for each financial year and the current policy of the REIT Manager is to comply with such requirement.

Distributions for 2018

The Board of Directors of the REIT Manager has resolved to declare a final distribution of HK\$0.076 per Unit for the period from 1st July, 2018 to 31st December, 2018. Together with the interim distribution of HK\$0.074 per Unit for the period from 1st January, 2018 to 30th June, 2018, total distributions per Unit for 2018 will amount to HK\$0.150, representing a yield of 6.73% based on the Unit closing price of HK\$2.23 on the last trading day of 2018. The final distribution of HK\$0.076 per Unit will be payable to Unitholders on the Register of Unitholders on 20th May, 2019.

Total Distributable Income for the year ended 31st December, 2018 was HK\$489.2 million. Total distributions for the year, including the interim distribution of HK\$241.0 million and the final distribution of HK\$247.6 million, will amount to HK\$488.6 million or 99.9% of the Total Distributable Income for the year.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Wednesday, 15th May, 2019 to Monday, 20th May, 2019, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the distribution, all Unit certificates with completed transfer forms must be lodged with Regal REIT’s Unit registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Tuesday, 14th May, 2019. The relevant distribution warrants are expected to be despatched on or about 29th May, 2019.

OUTLOOK FOR 2019

The International Monetary Fund (IMF) has revised downward its global growth forecast for 2019. As per IMF's World Economic Outlook (WEO) published in January 2019, weakness in the second half of 2018 will carry over to the following quarters, with global growth projected to decline to 3.5 percent in 2019 before picking up slightly to 3.6 percent in 2020 (0.2 percentage point and 0.1 percentage point lower, respectively, than in the previous WEO). This growth pattern reflects a persistent decline in the growth rate of advanced economies from above-trend levels, occurring more rapidly than previously anticipated, together with a temporary decline in the growth rate for emerging market and developing economies in 2019, reflecting contractions in Argentina and Turkey, as well as the impact of trade actions on China and other Asian economies⁹.

For 2018 as a whole, the Hong Kong economy grew by 3.0%. This was 0.8 percentage point lower than the 3.8% growth in 2017³ reflecting the change in the growth momentum. The unemployment rate (seasonally adjusted) of Hong Kong for the last quarter of 2018 was 2.8%¹⁰ which was the lowest recorded for the past twenty years. Based on the current trend, the China-US trade disputes could still affect Hong Kong's external trade performance. According to the Hong Kong SAR Government, about half of the Chinese goods that are re-exported to the U.S. via Hong Kong are likely to be affected by the tariffs levied on US\$250 billion worth of Chinese goods. Since the beginning of 2018, Hong Kong's external trade has maintained a relatively stable performance, likely driven by some front-loading activities⁴. However, the negative impact from such protectionist measures is likely to be felt in 2019. Hong Kong is a small and open economy, and both the Mainland and the U.S. are Hong Kong's largest trading partners⁴. With merchandise trade amounting to 320% of Hong Kong's GDP, if the external trade performance is affected by trade frictions, the negative impact might spread to the financial markets and other economic sectors, which will then drag down the overall performance of Hong Kong economy next year⁴. Though the outlook for Hong Kong is conservative for 2019, there are some positive factors supporting it, such as a strong labor market, proactive fiscal policies and performing industries like tourism, financial services, and innovation and technology (I&T) which are likely to support economic growth ahead⁴. As per the 2019-2020 Budget, Hong Kong's economic growth is expected to reach between 2% to 3%¹¹ in 2019 which indicates that there may be economical challenges ahead.

As per the 2018 Policy Address by the Chief Executive, Ms. Carrie Lam, there will be four new initiatives particularly focused on the "Tourism, Hotel, Retail and Catering" industries. These four initiatives will be enforced by the Commerce and Economic Development Bureau and they are: (a) enhance the tourism appeal of Sham Shui Po and Wan Chai Districts and enrich visitor experiences through collaboration with creative industries in staging more creative tourism events that feature fashion parades, public art works, comic characters with local originality, and multimedia creative technologies; (b) enhance the appeal of the Hong Kong Wetland Park as an ecotourism attraction by upgrading its facilities to offer better visitor experiences of the wetland wildlife and habitat; (c) support the strategic repositioning of Ocean Park to enhance the tourism appeal of the park and attract more high value-added overnight visitors to Hong Kong; and (d) reinforce and enhance the status of Wan Chai North as a convention and exhibition hub in Asia by constructing a convention centre above the Exhibition Centre Station of the Shatin to Central Link upon the latter's completion, and redeveloping the sites of the three government towers in Wan Chai North and Kong Wan Fire Station for convention and exhibition, hotel and office uses¹².

⁹ Source: Publications, International Monetary Fund, "World Economic Outlook UPDATE – A Weakening Global Expansion", 11th January, 2019.

¹⁰ Source: Press Release, Census and Statistics Department, "Unemployment and underemployment statistics for October – December 2018", 17th January, 2019.

¹¹ Source: Budget Speech, The 2019-20 Budget, "Economic Prospects for 2019 and Medium-term Outlook", 27th February, 2019.

¹² Source: Policy Agenda, The 2018 Policy Address, "Tourism, Hotel, Retail and Catering Industries", 10th October, 2018.

For the tourism sector, the Hong Kong Government will formulate and implement relevant measures and initiatives to boost the further development of tourism. The government will focus in the following three areas, namely: (1) to facilitate the balanced, healthy and sustainable development of the tourism industry and to formulate forward-looking strategies for the future. Actively pressing ahead with various initiatives, including promoting in-depth district tourism to enable visitors to experience Hong Kong's local life, district characteristics, enhancing the supporting facilities of key hiking trails and piers with a view to strengthening the development of Hong Kong's green and eco-tourism; (2) to closely monitoring the existing expansion plans of Hong Kong Disneyland and will explore whether there is room for its next-stage development. The government will also continue to support Ocean Park in reviewing its strategic positioning and future development plans, with a view to bringing more comprehensive recreational experience to visitors. In addition, support the Peak Tram by providing funds to enhance its attractiveness as an important tourism and recreational facility; and (3) to strengthen trade regulations to safeguard the rights and interests of visitors. The government will submit the Travel Industry Bill to the Legislative Council for approval, so that the Travel Industry Authority can be established as soon as possible to commence necessary preparations for setting up the new regulatory regime¹³. All the mentioned initiatives and development strategies are believed to have a positive impact in meeting the demands of an increasing number of global and regional visitors to Hong Kong.

GROWTH STRATEGY


The REIT Manager's primary strategy is to maintain and grow a strong and balanced investment portfolio of hotels and hospitality-related properties. The REIT Manager intends to achieve its objective of long-term growth in distributions and in the net asset value per Unit through a combination of two core strategies as follows:

- Internal Growth Strategy: The core growth strategy for the hotel portfolio is to maximise value for Unitholders through pro-active asset management achieving higher total revenue, RevPAR and NPI performance; and
- External Growth Strategy: The core strategy for growing the portfolio of hotels is to selectively acquire additional hotel and other properties that meet the REIT Manager's investment criteria.

In evaluating potential acquisition opportunities, the REIT Manager will focus on the following criteria:

- The expected yield enhances returns to Unitholders;
- Target the first tier international gateway cities worldwide with a focus on Hong Kong and Mainland China on markets and locations in urban centres and popular resort areas with growth potential;
- Value-adding opportunities, e.g. properties that may be undermanaged or in need of capital investment and/or which may benefit from market re-positioning and the Regal brand and/or which may be extended or have other asset enhancement opportunities;
- Majority ownership of assets acquired; and
- Targeting income and cashflow generating properties.

¹³ Source: Policy Address, The 2018 Policy Address, "Tourism", 10th October, 2018.



While Regal REIT will focus on hotels and hospitality-related properties in Greater China, its investment scope also includes serviced apartments, offices and retail and entertainment complexes and the geographical scope goes beyond Greater China. Regal REIT's investment scope allows for flexibility in its growth through acquisition of, for example, mixed-use developments containing hotels, and other investment opportunities overseas.

The targeted properties may be unfinished and require furnishing and fit-out. However, the value of unfinished properties should, under the current terms of the Trust Deed, represent less than 10% of Regal REIT's gross asset value at the time of acquisition.

Subsequent to the relaxation of the REIT Code to allow REITs to undertake property development activities and invest in certain financial instruments and the relevant amendments to the Trust Deed, Regal REIT will be able to enjoy a larger degree of flexibility in its expanded investment scope.

The REIT Manager continues to actively evaluate opportunities in target markets, while remaining committed to the set investment criteria.

Regal REIT intends to hold its properties on a long-term basis. However, if in the future any hotel property no longer fits its investment objectives or when an attractive offer, given prevailing market conditions, is received, the REIT Manager may consider disposing of the property for cash, so that its investment capital can be redeployed according to the investment strategies outlined above.

MATERIAL ACQUISITIONS OR DISPOSALS OF REAL ESTATE

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

OTHER INVESTMENTS

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

BUY-BACK, SALE OR REDEMPTION OF UNITS

There were no buy-backs, sales or redemptions of Units during the year.

EMPLOYEES

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

MAJOR REAL ESTATE AGENTS

Save for the RHIHL Lessee and/or the Hotel Manager which had been delegated to take the responsibility for the operation and management of the five Initial Hotels and the four iclub Hotels pursuant to the respective related lease agreements and the hotel management agreements, and as disclosed in this Annual Report, Regal REIT did not engage any real estate agents to conduct any services or work for the five Initial Hotels and the four iclub Hotels during the year.

MAJOR CONTRACTORS

In 2018, the aggregate value of service contracts of the top three contractors engaged by Regal REIT and their respective value of services rendered and percentages in terms of property and hotel operating expenses were as follows:

Contractors	Nature of Services	Value of Services HK\$'000	Percentage
Regal Hotels International Limited	iclub Wan Chai Hotel management fees	1,775	5.7%
Regal Hotels International Limited	Marketing fees	383	1.2%
Paliburg Estate Management Limited	Building management fees	599	1.9%
		<u>2,757</u>	<u>8.8%</u>

Save for the above three transactions, there were no other major contractors engaged by Regal REIT during the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The 2018 Environmental, Social and Governance Report of Regal REIT will be published as a separate report in due course.

ANNUAL GENERAL MEETING

The 2019 Annual General Meeting of Regal REIT will be convened on Monday, 20th May, 2019. Relevant notice of the Meeting will be contained in the circular of Regal REIT relating to the general mandate to buy-back Units to be sent to the Unitholders, together with the 2018 Annual Report.

On behalf of the Board

Regal Portfolio Management Limited

(as the REIT Manager of Regal REIT)

Johnny Chen Sing Hung and Simon Lam Man Lim

Executive Directors

Hong Kong, 26th March, 2019

DIRECTOR AND EXECUTIVE OFFICER PROFILES

DIRECTOR PROFILES

Mr. Lo Yuk Sui, aged 74, Chairman and Non-executive Director – Mr. Lo was appointed as the Chairman and Non-executive Director of the REIT Manager in 2006. He has over 48 years of experience in the real estate and hospitality sectors. He is an executive director, the chairman and chief executive officer of Regal Hotels International Holdings Limited (“RHIHL”) of which Regal REIT is a listed subsidiary. He has held the position as the chairman and managing director of RHIHL since 1989 when RHIHL was established in Bermuda as the holding company for the RHIHL group and was designated as chief executive officer in 2007. He has been the managing director and chairman of the predecessor listed company of the RHIHL group since 1984 and 1987, respectively. He is also an executive director, the chairman and chief executive officer of Century City International Holdings Limited (“CCIHL”) and Paliburg Holdings Limited (“PHL”), of which Regal REIT is a listed subsidiary, and Cosmopolitan International Holdings Limited (“Cosmopolitan”), of which Regal REIT is a listed fellow subsidiary. He is a qualified architect. Mr. Lo is the father of Miss Lo Po Man and Mr. Jimmy Lo Chun To.

Miss Lo Po Man, aged 39, Vice Chairman and Non-executive Director – Miss Lo was appointed as a Non-executive Director of the REIT Manager in 2012 and elected as the Vice Chairman of the REIT Manager in 2013. She graduated from Duke University, North Carolina, U.S.A. with a Bachelor’s Degree in Psychology. She is currently an executive director and a vice chairman of CCIHL and Cosmopolitan, an executive director of PHL, and an executive director, a vice chairman and the managing director of RHIHL. Miss Lo oversees the sales and marketing functions of the RHIHL group and also undertakes responsibilities in the business development of the CCIHL group. Miss Lo is the daughter of Mr. Lo Yuk Sui and the sister of Mr. Jimmy Lo Chun To.

Mr. Johnny Chen Sing Hung, aged 51, Executive Director and Responsible Officer – Mr. Chen joined the REIT Manager as the Director – Asset Management and was appointed as an Executive Director in 2014. Mr. Chen is responsible for, among other things, overseeing and managing the asset management activities of Regal REIT and, jointly with Mr. Simon Lam Man Lim, for making disclosures and communications of Regal REIT to investors. Mr. Chen holds a Master of Business Administration degree, a Bachelor of Administrative Studies degree and a Bachelor of Arts degree (major in mathematics for commerce). He is a Fellow member of the Hong Kong Institute of Directors, a former member of the Chinese People’s Political Consultative Conference, Yuexiu District, Guangzhou City, China, and a member of Hong Kong Securities and Investment Institute. Mr. Chen has over 20 years of business development, trading, property investment, development and management experience. He is currently a non-executive director of Silver Base Group Holdings Limited, which is listed on the Hong Kong Stock Exchange. Prior to joining the REIT Manager, Mr. Chen was the Vice President - Business Development of Century City Holdings Limited, a subsidiary of CCIHL, from May 2013 to July 2014. Prior to that, he held various management and controller positions in different major Hong Kong companies and multinational corporations, including Faithful Trading (H.K.) Ltd, Gome Home Appliances (HK) Limited and Chevalier Group.

Mr. Lam Man Lim (Alias: Simon), aged 62, Executive Director and Responsible Officer – Mr. Lam joined the REIT Manager as the Director of Finance and Investment and Investor Relations in 2010. He was appointed as an Executive Director in 2011. Mr. Lam is responsible for, among other things, overseeing and managing the finance, accounting and investment activities of Regal REIT. He is also responsible, jointly with Mr. Johnny Chen Sing Hung, for making the disclosures and communications of Regal REIT to investors. Mr. Lam holds a Master of Business Administration degree and is a Fellow member of The Hong Kong Institute of Certified Public Accountants, a Fellow member of The Hong Kong Institute of Directors and an associate member of The Chartered Institute of Management Accountants. Mr. Lam has over 30 years of finance and commercial experience in various business sectors and industries. Prior to joining the REIT Manager, he was an executive director and chief financial officer of Binhai Investment Company Limited, a listed company on the Hong Kong Stock Exchange. Prior to that, he held management positions in different Hong Kong listed companies and multinational corporations, including Link Asset Management Limited (the REIT manager of Link REIT), Johnson Electric, Motorola Asia Pacific Limited and Philips Electronics Group.

Mr. John William Crawford, JP, aged 76, Independent Non-executive Director – Mr. Crawford was appointed as an Independent Non-executive Director of the REIT Manager in 2006. He was one of the founders of Ernst & Young, Hong Kong office, and was vice-chairman of the firm when he retired at the end of 1997. During his 25 years in public practice, he was also the chairman of the audit division of Ernst & Young and was active in a number of large private and public company takeover and/or restructuring exercises. He has continued to undertake consultancy/advisory work in a private capacity since retirement, is active in the education sector and is the chairman of International Quality Education Limited. He also remains active in various community service areas such as having been a founding member of UNICEF Hong Kong Committee and the Hong Kong Institute of Directors. In 1997, he was appointed as a Justice of the Peace in Hong Kong. He currently acts as an independent non-executive director and the chairman of the audit and risk committee for both Melco Resorts & Entertainment Limited and Melco Resorts and Entertainment (Philippines) Corporation, which are listed on the NASDAQ and the Philippine Stock Exchange, respectively.

Mr. Donald Fan Tung, aged 62, Non-executive Director – Mr. Fan was appointed as a Non-executive Director of the REIT Manager in 2006. He is a qualified architect. He is currently an executive director of CCIHL, PHL and RHIHL. He is also the chief operating officer of PHL. He is in charge of the property development, architectural design and project management functions as well as overseeing the building construction business of the CCIHL group.

Mr. Bowen Joseph Leung Po Wing, GBS, JP, aged 69, Independent Non-executive Director – Mr. Leung was appointed as an Independent Non-executive Director of the REIT Manager in 2016. Mr. Leung previously served the Hong Kong Government for over 32 years until his retirement as the Director of the Office of the Government of the Hong Kong Special Administrative Region in Beijing (“Beijing Office”) in November 2005. He joined the Administrative Service in June 1973 and rose to the rank of Administrative Officer Staff Grade A1 in June 1996. During his service in the Administrative Service, Mr. Leung had served in various policy bureaux and departments. Senior positions held by Mr. Leung included: Deputy Secretary for District Administration (later retitled as Deputy Secretary for Home Affairs); Deputy Secretary for Planning, Environment and Lands; Private Secretary, Government House, Secretary for Planning, Environment and Lands and Director of the Beijing Office. Mr. Leung has extensive experience in corporate leadership and public administration. During his tenure as the Director of the Beijing Office, he made commendable efforts in promoting Hong Kong in the Mainland, as well as fostering closer links and co-operation between Hong Kong and the Mainland. Mr. Leung is an independent non-executive director and a member of the Audit Committee of Green Leader Holdings Group Limited, PHL and Quali-Smart Holdings Limited, all of which are companies listed on the Hong Kong Stock Exchange.

Mr. Lo Chun To (Alias: Jimmy), aged 45, Non-executive Director – Mr. Lo was appointed as a Non-executive Director of the REIT Manager in 2006. He is an executive director and a vice chairman of CCIHL, an executive director, the vice chairman and the managing director of PHL, an executive director, a vice chairman and the managing director of Cosmopolitan and an executive director of RHIHL. He graduated from Cornell University, New York, U.S.A. with a Bachelor of Architecture degree. He is primarily involved in overseeing the Cosmopolitan group's property projects in the People's Republic of China and, in addition, undertakes responsibilities in the business development of the CCIHL group. He is the son of Mr. Lo Yuk Sui and the brother of Miss Lo Po Man.

Mr. Ng Kwai Kai (Alias: Kenneth), aged 64, Non-executive Director – Mr. Ng was appointed as a Non-executive Director of the REIT Manager in 2012. He is a Chartered Secretary. He is currently an executive director and the chief operating officer of CCIHL and an executive director of PHL, RHIHL and Cosmopolitan. Mr. Ng is in charge of the corporate finance, company secretarial and administrative functions of CCIHL group.

Mr. Kai Ole Ringenson, aged 69, Independent Non-executive Director – Mr. Ringenson was redesignated as an Independent Non-executive Director of the REIT Manager in 2012. He was the Chief Executive Officer and Executive Director of the REIT Manager in 2006 and a Responsible Officer of the REIT Manager in 2007 until he became a Non-executive Director on 1st March, 2010. He has extensive experience in international hotel management and asset management. He has managed hotels in Asia, Europe and the United States and has managed numerous hotel turn-around situations. He obtained a Bachelor of Science (Hotel) degree from Cornell University, New York, U.S.A.. He joined the RHIHL group in 2001 and was an executive director of RHIHL and the chief operating officer of Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL, from 2002 until he became a non-executive director of RHIHL in 2004. He resigned as a non-executive director of RHIHL in 2006 to become the sole Executive Director and Chief Executive Officer of the REIT Manager in 2006.

Hon. Abraham Shek Lai Him (Alias: Abraham Razack), GBS, JP, aged 73, Independent Non-executive Director – Mr. Shek was appointed as an Independent Non-executive Director of the REIT Manager in 2006. He holds a Bachelor of Arts degree from the University of Sydney. He is currently a member of the Legislative Council for the Hong Kong Special Administrative Region. He is also a member of the Court of The Hong Kong University of Science & Technology, a member of both of the Court and the Council of The University of Hong Kong, a non-executive director of the Mandatory Provident Fund Schemes Authority and a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption (ICAC). Mr. Shek is the chairman, an independent non-executive director and a member of Audit Committee of Chuang's China Investments Limited, the vice chairman, an independent non-executive director and a member of audit committee of ITC Properties Group Limited and an independent non-executive director and a member of the audit committee of China Resources Cement Holdings Limited, Chuang's Consortium International Limited, Cosmopolitan, Country Garden Holdings Company Limited, CSI Properties Limited, Everbright Grand China Assets Limited, Lifestyle International Holdings Limited, NWS Holdings Limited, PHL and SJM Holdings Limited, all of which are companies listed on the Hong Kong Stock Exchange. He also currently acts as an independent non-executive director of Goldin Financial Holdings Limited, Hop Hing Group Holdings Limited, Lai Fung Holdings Limited and MTR Corporation Limited, which are listed on the Hong Kong Stock Exchange. He is an independent non-executive director and a member of the audit committee of Eagle Asset Management (CP) Limited which is the manager of Champion Real Estate Investment Trust, the units of which are listed on the Hong Kong Stock Exchange.

EXECUTIVE OFFICER PROFILES

Mr. Wesley Chan Hiu Yeung, Responsible Officer and Manager - Property / Investment – Mr. Chan is responsible for, among other things, overseeing and managing the property and investment activities of Regal REIT, including but not limited to identification and evaluation of potential investment opportunities and also monitoring capital addition projects and expenditures. Mr. Chan holds a Bachelor of Science degree in Surveying from The University of Hong Kong and a Postgraduate Diploma in Arbitration and Mediation from HKU School of Professional and Continuing Education. He is a Professional Member of Royal Institution of Chartered Surveyors, Chartered Financial Analyst charterholder, Chartered Alternative Investment Analyst charterholder and also a member of Chartered Institute of Arbitrators. Mr. Chan has extensive experience in property investment management and has been participated in managing and launching various real estate investment funds in the past. Prior to joining the REIT Manager, he has worked in investment departments in various fund management and real estate consultancy firms, including CITIC Capital, Sniper Capital and Savills.

Ms. Peony Choi Ka Ka, Compliance Manager and Company Secretary – Ms. Choi is responsible for, among other things, ensuring that the REIT Manager and Regal REIT complies with the Trust Deed, the REIT Code, the Listing Rules and other applicable laws, regulations and rules and corporate secretarial functions. She holds a Bachelor of Laws degree and a Master of Arts degree in Professional Accounting and Information Systems in Hong Kong. She is also an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She is familiar with compliance matters under the rules and laws of Hong Kong that are applicable to private and listed companies.

Ms. Charlotte Cheung Wing Shan, Internal Auditor – Ms. Cheung is responsible for, among other things, reviewing the accuracy and completeness of records of the operations and transactions of Regal REIT and ensuring that the risk management and internal control systems function properly and effectively. She holds a Bachelor of Business Administration degree majoring in Professional Accountancy and a Master of Laws degree. She is an associate member of the Hong Kong Institute of Certified Public Accountants. Before joining the REIT Manager, she worked in an international audit firm where she provided audit services to local and multinational companies in a variety of industries and including listed companies. She is familiar with internal audit matters and internal control systems for companies in various business sectors.

CORPORATE GOVERNANCE REPORT

Regal REIT is committed to maintaining the highest level of corporate governance practices and procedures. The REIT Manager has adopted a compliance manual for use in relation to the management and operation of Regal REIT (the "Compliance Manual") which sets out the key processes, systems, and policies and procedures to guide operations and, thereby, set a high standard of corporate governance to ensure relevant regulations and legislation are adhered to. Set out below is a summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT Manager and Regal REIT.

AUTHORISATION STRUCTURE

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

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

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

ROLES OF THE TRUSTEE AND THE REIT MANAGER

The Trustee is responsible under the Trust Deed for the safe custody of the assets of Regal REIT for the benefit of the Unitholders as a whole and oversees the activities of the REIT Manager for compliance with the Trust Deed and regulatory requirements.

The REIT Manager was appointed under the Trust Deed to manage Regal REIT and, in particular, to ensure that the financial and economic aspects of Regal REIT's assets are professionally managed in the sole interests of the Unitholders.

The Trustee and the REIT Manager are functionally independent of each other.

Under the regulatory regime of the SFC by classifying eight core functions, each of the core functions has been assigned to designated management personnel as Managers-in-charge (MIC) as set out below.

Core functions	MICs
1. Overall Management Oversight	<ul style="list-style-type: none">Executive Director – FinanceExecutive Director – Asset Management
2. Key Business Line	<ul style="list-style-type: none">Executive Director – FinanceExecutive Director – Asset ManagementManager – Property / Investment
3. Operational Control and Review	<ul style="list-style-type: none">Executive Director – FinanceExecutive Director – Asset ManagementInternal Auditor
4. Risk Management	<ul style="list-style-type: none">Internal Auditor
5. Finance and Accounting	<ul style="list-style-type: none">Executive Director – FinanceAccounting Manager
6. Information Technology	<ul style="list-style-type: none">Executive Director – Finance
7. Compliance	<ul style="list-style-type: none">Compliance Manager
8. Anti-Money Laundering and Counter-Terrorist Financing	<ul style="list-style-type: none">Executive Director – FinanceExecutive Director – Asset Management

BOARD OF DIRECTORS OF THE REIT MANAGER

Functions of the Board

The board of directors of the REIT Manager (the “Board”) is responsible for overseeing the overall governance of the REIT Manager and the day-to-day management of the REIT Manager’s affairs and the conduct of its business. The Board has established a framework for the management of Regal REIT, including systems of internal control and business risk management processes.

The Board is also responsible for ensuring that the REIT Manager discharges its duties under the Trust Deed which includes but not limited to managing Regal REIT in accordance with the Trust Deed in the best interests of the Unitholders; ensuring sufficient oversight of the daily operations and financial conditions of Regal REIT; and monitoring the REIT Manager and Regal REIT are in compliance with the licensing and authorisation conditions and any other legal and regulatory requirements.


All material policies and decisions remain within the authority of the Board as a whole. Subject to the matters specifically reserved to the Board as set out in the Compliance Manual, the Board delegates certain management and supervisory functions to the management team and relevant committees of the Board.

Board Composition

With the objective of creating a Board structure that is both effective and balanced, the size of the Board was set to provide for a minimum of five directors and a maximum of twenty directors. Pursuant to a specific REIT Manager corporate governance policy, independent non-executive directors must be individuals who fulfill the independence criteria as set out in the Compliance Manual.

The composition of the Board is determined using the following key principles:

- the Chairman of the Board must be a Non-executive Director of the REIT Manager;
- at least one-third of the Board should be Independent Non-executive Directors with a minimum of three Independent Non-executive Directors; and
- the Board must comprise Directors with a broad range of commercial experience including expertise in hotel investment and management, in fund and asset management and/or in the property industry.



The Board presently comprises two Executive Directors, five Non-executive Directors and four Independent Non-executive Directors. The positions of Chairman and Executive Directors are held by different persons in order to maintain an effective segregation of duties. The Board currently comprises the following members:

Chairman and Non-executive Director

Lo Yuk Sui

Vice Chairman and Non-executive Director

Lo Po Man

Executive Directors

Johnny Chen Sing Hung

Simon Lam Man Lim

Non-executive Directors

Donald Fan Tung

Jimmy Lo Chun To

Kenneth Ng Kwai Kai

Independent Non-executive Directors

John William Crawford, JP

Bowen Joseph Leung Po Wing, GBS, JP

Kai Ole Ringenson

Abraham Shek Lai Him, GBS, JP

The biographical details of the Directors, including the relationship among them, are disclosed in the preceding section "Director and Executive Officer Profiles" contained in this Annual Report.

Appointment and Removal of Directors

The appointment and removal of Directors is a matter for the Board and the shareholder of the REIT Manager to determine in accordance with the provisions of the Compliance Manual and the articles of association of the REIT Manager. All Directors (including the Non-executive Directors and Independent Non-executive Directors) of the REIT Manager were not appointed for specific terms but, in accordance with the Compliance Manual, the maximum term of an Independent Non-executive Director is nine years. If such Independent Non-executive Director has served on the Board for more than nine years, his/her further appointment will be subject to a separate resolution to be approved by Unitholders.

Directors may be nominated for appointment and/or removal by the Board following recommendations made by the audit committee of the REIT Manager (the "Audit Committee"). In considering persons for appointment as Directors, the Board will consider a number of matters as set out in the Compliance Manual in assessing whether such persons are fit and proper to be Directors.

Directors' Interests in Contracts

Save as otherwise disclosed, none of the Directors had any beneficial interests, directly or indirectly, in any significant contracts to which Regal REIT or any of its subsidiaries was a party at the end of the reporting period or at any time during the year.

None of the Directors had a service contract, which is not determinable within one year without payment of compensation (other than statutory compensation), with Regal REIT or any of its subsidiaries during the year.

Conflicts of Interest

The REIT Manager has instituted the following policies to deal with issues of conflict of interest:

- (i) The REIT Manager is a dedicated manager to Regal REIT and will not manage any other real estate investment trusts or be involved in any other real property businesses.
- (ii) All of the Executive Officers will be employed by the REIT Manager on a full time basis and will not maintain any other roles apart from their roles within the REIT Manager.
- (iii) All connected party transactions are to be managed in accordance with the provisions set out in the Compliance Manual.
- (iv) Where any Director or executive officer has a material interest in any transaction relating to Regal REIT or the REIT Manager which gives rise to an actual or potential conflict of interest in relation to such transaction, he or she shall not advise on or deal in relation to such transaction unless he or she has disclosed such material interest or conflict to the Board and has taken all reasonable steps to ensure fair treatment of both the REIT Manager and Unitholders.

Independence of Independent Non-executive Directors

Each of the Independent Non-executive Directors of the REIT Manager has made an annual confirmation of independence pursuant to the "Criteria for Independence of INEDs" as set out in the Compliance Manual, on terms no less exacting than those set out in the Listing Rules for assessing the independence of a Non-executive Director. The REIT Manager considered all Independent Non-executive Directors have met the independence criteria as set out in the Compliance Manual.

Change of Information of Directors

There are no change in the information of the Directors of the REIT Manager since the publication of the 2018 Interim Report.

Continuous Professional Development of Directors

During the year under review, the Directors have participated in certain continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. In 2018, the REIT Manager arranged for Directors a seminar covering topics on, among others, latest changes on anti-money laundering laws and regulations. The training received by the Directors during the year under review is summarised below:

Name of Directors	Types of training
<i>Chairman and Non-executive Director</i>	
Lo Yuk Sui	A,B
<i>Vice Chairman and Non-executive Director</i>	
Lo Po Man	A,B
<i>Executive Directors</i>	
Johnny Chen Sing Hung	A,B
Simon Lam Man Lim	A,B
<i>Non-executive Directors</i>	
Donald Fan Tung	A,B
Jimmy Lo Chun To	A,B
Kenneth Ng Kwai Kai	A,B
<i>Independent Non-executive Directors</i>	
John William Crawford, JP	A,B
Bowen Joseph Leung Po Wing, GBS, JP	A,B
Kai Ole Ringenson	B
Abraham Shek Lai Him, GBS, JP	A,B

A – Attending briefings/seminars/conferences/forums

B – Reading/studying training or other materials

Meetings

The Board conducts regular meetings and generally meets no less than four times in each financial year, at approximate quarterly intervals, to discuss and decide on major corporate, strategic, business and operational issues. Appropriate and sufficient information is provided to the members of the Board in a timely manner in order to enable them to discharge their duties.

Four full Board meetings of the REIT Manager and one general meeting of the Unitholders were held during the year ended 31st December, 2018 and the attendance rates of the individual Board members were as follows:

Name of Directors	Attendance/ No. of General Meeting	Attendance/ No. of Board Meetings
<i>Chairman and Non-executive Director</i>		
Lo Yuk Sui	1/1	4/4
<i>Vice Chairman and Non-executive Director</i>		
Lo Po Man	1/1	4/4
<i>Executive Directors</i>		
Johnny Chen Sing Hung	1/1	4/4
Simon Lam Man Lim	1/1	4/4
<i>Non-executive Directors</i>		
Donald Fan Tung	1/1	4/4
Jimmy Lo Chun To	1/1	4/4
Kenneth Ng Kwai Kai	1/1	4/4
<i>Independent Non-executive Directors</i>		
John William Crawford, JP	1/1	4/4
Bowen Joseph Leung Po Wing, GBS, JP	1/1	4/4
Kai Ole Ringenson	1/1	4/4
Abraham Shek Lai Him, GBS, JP	1/1	4/4

AUDIT COMMITTEE

The Audit Committee was established with specific terms of reference that deal with its authority and duties in 2006. The Audit Committee currently comprises the following Directors:

Independent Non-executive Directors

John William Crawford, JP (Chairman of the Committee)

Bowen Joseph Leung Po Wing, GBS, JP

Kai Ole Ringenson

Abraham Shek Lai Him, GBS, JP

Non-executive Director

Kenneth Ng Kwai Kai

The Audit Committee is responsible for, among other matters, (a) reviewing the completeness, accuracy, clarity and fairness of Regal REIT's financial statements; (b) considering the scope, approach and nature of both internal and external audit reviews; (c) the overall adequacy of risk management measures; (d) reviewing and monitoring connected party transactions; and (e) nominating the external auditor including the approval of the remuneration, reviewing the adequacy of external audits and guiding management to take appropriate actions to remedy faults or deficiencies in any issues of internal control which may be identified.

In addition to informal or ad hoc meetings and discussions, three formal Audit Committee meetings of the REIT Manager were held during the year ended 31st December, 2018 to consider and review, among other things, the 2017 final results, the 2018 interim results, internal audit reports, connected party transactions, risk management, annual budgets and forecasts and other compliance matters of Regal REIT. The attendance rates of the individual members were as follows:

Name of Audit Committee Members	Attendance/ No. of Meetings
John William Crawford, JP (Chairman of the Committee)	3/3
Bowen Joseph Leung Po Wing, GBS, JP	3/3
Kai Ole Ringenson	2/3
Abraham Shek Lai Him, GBS, JP	3/3
Kenneth Ng Kwai Kai	3/3

DISCLOSURE COMMITTEE

The disclosure committee of the REIT Manager (the "Disclosure Committee") is responsible for, among other matters, reviewing all areas relating to the regular, urgent and forward looking disclosures of information to Unitholders and public announcements.

The Disclosure Committee currently comprises the following Directors:

Independent Non-executive Directors

John William Crawford, JP (Chairman of the Committee)

Kai Ole Ringenson

Executive Directors

Johnny Chen Sing Hung

Simon Lam Man Lim

Non-executive Directors

Donald Fan Tung

Kenneth Ng Kwai Kai

Two formal Disclosure Committee meetings of the REIT Manager were held during the year ended 31st December, 2018 to consider and review, among other things, the 2017 final results announcement, the 2017 annual report, the 2018 interim results announcement, the 2018 interim report and other corporate disclosure issues of Regal REIT. The attendance rates of the individual members were as follows:

Name of Disclosure Committee Members	Attendance/ No. of Meetings
John William Crawford, JP (Chairman of the Committee)	2/2
Johnny Chen Sing Hung	2/2
Simon Lam Man Lim	2/2
Donald Fan Tung	2/2
Kenneth Ng Kwai Kai	2/2
Kai Ole Ringenson	1/2

AUDITOR'S REMUNERATION

The remuneration to Messrs. Ernst & Young, the external auditor of Regal REIT, in respect of the audit and non-audit services rendered for the year ended 31st December, 2018 were HK\$1.9 million (2017: HK\$1.8 million) and HK\$0.5 million (2017: HK\$0.9 million), respectively. The non-audit services include interim review of the financial statements of the Group for the six months ended 30th June, 2018, report of factual findings on connected party transactions, and compliance and other services to the Group.

REPORTING AND TRANSPARENCY

Regal REIT prepares its financial statements in accordance with generally accepted accounting principles in Hong Kong and has a financial year ending 31st December with a financial half year period ending 30th June. In accordance with the REIT Code, the annual report and financial statements of Regal REIT are to be published and despatched to Unitholders no later than four months following each financial year end and the interim report no later than two months following each financial half year period end.

As required by the REIT Code, the REIT Manager ensures all public announcements of material information and developments with respect to Regal REIT are made on a timely basis in order to keep Unitholders apprised of the position of Regal REIT.

UNITHOLDERS' RIGHTS

Regal REIT will hold a general meeting each year as its annual general meeting in addition to any other meetings deemed necessary during the year. The Trustee or the REIT Manager may (and the REIT Manager will at the request in writing of not less than two Unitholders registered as together holding not less than 10% of the Units for the time being in issue and outstanding) at any time convene a meeting of the Unitholders. Such written requisition must state the purposes of the meeting, and be signed by the requisitioner(s) and deposited at the office of the REIT Manager at Unit No. 2001, 20th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong (for the attention of the Executive Directors). Notices convening the annual general meeting and other general meeting of Unitholders will be given to the Unitholders in accordance with the requirements of the Trust Deed, the REIT Code and the applicable Listing Rules, and such notices will specify the time and place of the meetings and the resolutions to be proposed.

Two or more Unitholders present in person or by proxy registered as holding together not less than 10% of the Units for the time being in issue and outstanding will form a quorum for the transaction of all business, except for the purpose of passing special resolutions. The quorum for passing a special resolution will be two or more Unitholders present in person or by proxy registered as holding together not less than 25% of the Units for the time being in issue and outstanding. At any meeting of the Unitholders, a resolution put to the meeting shall be decided on a poll.

In addition, Unitholders may also send written enquiries to the REIT Manager for putting forward any enquiries or proposals about Regal REIT to the Board at the abovementioned REIT Manager's office (for the attention of the Executive Directors).

MATTERS TO BE DECIDED BY THE UNITHOLDERS BY SPECIAL RESOLUTION

Pursuant to the Trust Deed, decisions with respect to certain matters require specific prior approval of Unitholders by way of special resolution. Such matters include, among other things:

- (a) any change in the REIT Manager's investment policies/strategies for Regal REIT;
- (b) disposal of any real estate investment of Regal REIT or shares in any special purpose vehicles holding such real estate investment within two years of acquisition;
- (c) any increase in the rate of the REIT Manager fees above the permitted limit or any change in the structure of the REIT Manager fees;
- (d) any increase in the rate of the Trustee fees above the permitted limit or any change in the structure of the Trustee fees;
- (e) any increase in the rate of the acquisition fees above the permitted limit or any change in the structure of the acquisition fees;
- (f) any increase in the rate of the divestment fees above the permitted limit or any change in the structure of the divestment fees;
- (g) certain modifications of the Trust Deed;
- (h) termination of Regal REIT;
- (i) merger of Regal REIT;
- (j) removal of Regal REIT's external auditor; and
- (k) removal of the Trustee.

As stated above, the quorum for passing a special resolution is two or more Unitholders present in person or by proxy registered as holding together not less than 25% of the Units in issue and outstanding. A special resolution may only be passed by 75% or more of the votes of those present and entitled to vote in person or by proxy at a duly convened meeting and the votes shall be taken by way of poll.

ISSUE OF FURTHER UNITS POST-LISTING

To minimise the possible material dilution of holdings of Unitholders, any further issues of Units need to comply with the pre-emption provisions contained in the REIT Code and the Trust Deed. Any further issues of Units must be first offered on a pro rata pre-emptive basis to all existing Unitholders except that Units may be issued, or agreed (conditionally or unconditionally) to be issued, in any financial year (whether directly or pursuant to any Convertible Instruments (as defined in the Trust Deed)), otherwise than on a pro rata basis to all existing Unitholders and without the approval of Unitholders subject to conditions as more particularly set out in the Trust Deed.

Any issue, grant or offer of Units or Convertible Instruments to a connected person of Regal REIT (the "Connected Person") will require specific prior approval of Unitholders by way of an Ordinary Resolution (as defined in the Trust Deed), unless such issue, grant or offer is made under the following circumstances (where, for the avoidance of doubt, no Unitholders' approval will be required):

- (i) the Connected Person receives a pro rata entitlement to Units and/or Convertible Instruments in its capacity as a Unitholder; or
- (ii) Units are issued to a Connected Person under Clauses 14.1.1 and/or 14.1.2 of the Trust Deed in or towards the satisfaction of the REIT Manager fees; or
- (iii) Units and/or Convertible Instruments are issued to a Connected Person within 14 days after such Connected Person has executed an agreement to reduce its holding in the same class of Units and/or Convertible Instruments by placing such Units and/or Convertible Instruments to or with any person(s) who is/are not its associate(s) (other than any Excluded Associate (as defined in the Trust Deed)), provided always that (a) the new Units and/or Convertible Instruments must be issued at a price not less than the placing price (which may be adjusted for the expenses of the placing); and (b) the number of Units and/or Convertible Instruments issued to the Connected Person must not exceed the number of Units and/or Convertible Instruments placed by it; or
- (iv) the Connected Person is acting as underwriter or sub-underwriter of an issue or offer of Units or other securities by or on behalf of Regal REIT or any Special Purpose Vehicle (as defined in the Trust Deed), provided that:
 - (a) the issue or offer is made under and in accordance with Clause 5.1.6 of the Trust Deed; and
 - (b) the issue or offer is in compliance with any applicable provisions of the Listing Rules where a Connected Person is acting as an underwriter or sub-underwriter of an offer of shares or other securities by a listed company, with necessary changes being made, as if the provisions therein are applicable to real estate investment trusts; or
- (v) the excess application and the taking up of pro rata entitlements by the Connected Person in respect of a pro rata issue of Units and/or Convertible Instruments under Clause 5.1.6 of the Trust Deed or an open offer by Regal REIT on a pro rata basis; or
- (vi) Units are issued to a Connected Person pursuant to a reinvestment of a distribution in accordance with Clause 11.10 of the Trust Deed.

During the year, no new Units was allotted and issued.

CODE GOVERNING DEALINGS IN UNITS BY DIRECTORS, THE REIT MANAGER OR SIGNIFICANT UNITHOLDERS

The REIT Manager has adopted the “Code Governing Dealings in Units by Directors or the REIT Manager” (the “Units Dealings Code”) governing dealings in the securities of Regal REIT by the Directors and the REIT Manager as set out in the Compliance Manual, on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “Model Code”). The Units Dealings Code may be extended to senior executives, officers and other employees of the REIT Manager as the Board may determine.

Pursuant to the Units Dealings Code, any Directors or the REIT Manager who wish to deal in the securities of Regal REIT must first have regard to the provisions of Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct, as if the SFO applies to the securities of Regal REIT. In addition, a Director or the REIT Manager must not make any disclosures of confidential information or make any use of such information for the advantage of himself/itself or others.

Directors or the REIT Manager who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are designated transactions or connected party transactions under the REIT Code or notifiable transactions or connected transactions under the Listing Rules or any inside information must refrain from dealing in the Units as soon as they become aware of or privy to such information until proper disclosure thereof in accordance with the REIT Code and any applicable Listing Rules. Directors and the REIT Manager who are privy to relevant negotiations or agreements or any inside information should caution those Directors or the REIT Manager who are not so privy that there may be unpublished inside information and that they must not deal in Regal REIT’s securities for a similar period.

The REIT Manager has also adopted procedures for the monitoring of disclosures of interests by Directors and the REIT Manager. The relevant provisions of Part XV of the SFO shall be deemed to apply to the REIT Manager and the Directors of the REIT Manager and each Unitholder and all persons claiming through or thereunder.

Under the Trust Deed and by virtue of the deemed application of Part XV of the SFO, Unitholders with a holding of 5% or more of the Units will be required to notify the Stock Exchange, the REIT Manager and the Trustee of their holdings in Regal REIT. The REIT Manager shall keep a register for these purposes and it shall record in the register, against a person’s name, the particulars provided pursuant to the notification and the date of entry of such record. The said register shall be available for inspection at all times by the Trustee and any Unitholder.

Following specific enquiries, the Directors and the REIT Manager have confirmed that they have complied with the required standards under the Model Code and the Units Dealings Code during the year ended 31st December, 2018.

RISK MANAGEMENT AND INTERNAL CONTROL

The REIT Manager has an internal audit function and procedures in place to provide independent assessments of the risk management and internal control systems and operational functions so as to identify, evaluate and manage significant risks, and review their adequacy and effectiveness on an ongoing basis. Such systems were designed to manage rather than to eliminate the risk of failure in achieving business objectives, and to provide reasonable and not absolute assurance against material misstatements or losses. The Internal Auditor of the REIT Manager prepares annual audit plans and conducts audit reviews focusing on financial, operational and compliance controls of Regal REIT.

The Board acknowledges its responsibility for overseeing Regal REIT's risk management and internal control systems and compliance procedures and for reviewing the effectiveness of such systems. During the year, through the design, implementation and on-going reviews of the systems and updates by the internal auditor and related senior executives, the Audit Committee and the Board fulfilled its corporate governance role in financial, operational, compliance controls of Regal REIT in identifying any significant management and operational risks, control failings or weaknesses, and any control improvements in order to respond to changes in the business and external environment. The Board, through the Audit Committee, has conducted an annual review on the effectiveness of the risk management and internal control systems. Based on the audit plans, regular management reports and internal audit reviews, the Board ensures effective implementation of the risk management and internal control systems and compliance procedures to mitigate any damage arising from the identified risks and control weaknesses. Management confirmed to the Audit Committee and the Board that the risk management and internal control systems were adequate and effective and no material deficiencies were noted during the year.

The Board, through the Audit Committee and the Disclosure Committee, has established policies and meets periodically, to ensure that inside information is disseminated to the public in an equal and timely manner in accordance with applicable laws and regulations.

PUBLIC FLOAT

As at 31st December, 2018, there were 3,257,431,189 Units in issue.

Based on the information that is publicly available to the REIT Manager and as reported to the Directors of the REIT Manager, more than 25% of the Units were held by independent public Unitholders as at 31st December, 2018.

COMPLIANCE

Regal REIT and the REIT Manager have complied with the provisions of the Compliance Manual during the year.

REVIEW OF ANNUAL REPORT

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed this Annual Report for the year ended 31st December, 2018, in conjunction with Regal REIT's external auditor. This Annual Report was approved by the Board of the REIT Manager on 26th March, 2019.

The Directors of the REIT Manager acknowledge their responsibility for the preparation of a true and fair presentation of the financial statements of Regal REIT for the year ended 31st December, 2018 in accordance with the Hong Kong Financial Reporting Standards, the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in the REIT Code.

The statement by the Regal REIT external auditor, Messrs. Ernst & Young, about their reporting responsibilities on the financial statements of Regal REIT for the year ended 31st December, 2018 is set out in the section "Independent Auditor's Report" contained in this Annual Report.

CONNECTED PARTY TRANSACTIONS

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

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

RHIHL CONNECTED PERSONS GROUP

(a) Initial Hotels Lease Agreements

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

During the year, the market rental income and other income under the Initial Hotels Lease Agreements amounted to approximately HK\$824.7 million.

(b) Initial Hotels Management Agreements

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

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

(c) Initial Hotels Lease Guarantees

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

(d) Initial Hotels Deed of Trade Mark Licence

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

(e) Wan Chai Hotel Management Agreement

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

During the year, total management fees under the Wan Chai Hotel Management Agreement amounted to approximately HK\$1.8 million.

(f) SW Lease Agreement

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

During the year, the market rental income under the SW Lease Agreement amounted to approximately HK\$46.6 million.

(g) SW Lease Guarantee

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

(h) SW Hotel Management Agreement

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

(i) FH Lease Agreement

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

During the year, the market rental income under the FH Lease Agreement amounted to approximately HK\$44.0 million.

(j) FH Lease Guarantee

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

(k) FH Hotel Management Agreement

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

(l) Tenancy Agreement

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

During the year, total contractual lease income under the Tenancy Agreement amounted to HK\$1.8 million.

(m) MTW Lease Agreement

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

During the year, the contractual cash rental receipts under the MTW Lease Agreement amounted to approximately HK\$55.5 million.

(n) MTW Lease Guarantee

Pursuant to a lease guarantee entered into on 4th September, 2017 (the “MTW Lease Guarantee”), RHIHL, a member of the RHIHL Connected Person Group, has guaranteed to pay all amounts from time to time owing or payable by the RHIHL Lessee to the iclub Ma Tau Wai Hotel – Property Company under the MTW Lease Agreement.

(o) MTW Hotel Management Agreement

Regal REIT (via the iclub Ma Tau Wai Hotel – Property Company) entered into the MTW Hotel Management Agreement with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of iclub Ma Tau Wai Hotel for a 10-year term commencing on 4th September, 2017.

REIT Manager Fees

Regal Portfolio Management Limited, a member of the RHIHL Connected Persons Group, was appointed as the REIT Manager of Regal REIT. REIT Manager fees aggregating approximately HK\$114.1 million for such services rendered during the year were settled and/or are to be settled pursuant to the provisions of the Trust Deed.

Waivers from Strict Compliance

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

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

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

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

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

- (c) On 20th July, 2017, the SFC granted (subject to the terms and conditions as set out in the announcement dated 20th July, 2017 published by the REIT Manager) a waiver from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of the MTW Lease Agreement, the MTW Lease Guarantee and the MTW Hotel Management Agreement described above (the "MTW Hotel – RHIHL Connected Persons Group's Waiver").

During the year, Regal REIT has complied with the terms and conditions of the MTW Hotel – RHIHL Connected Persons Group's Waiver.

TRUSTEE CONNECTED PERSONS GROUP

Corporate Finance Transactions

On 11th January, 2013, R-REIT International Finance Limited (the "Issuer"), a special purpose vehicle wholly-owned by Regal REIT, established a US\$1.0 billion medium term note (the "Notes") programme (the "MTN Programme"). The Notes may be issued by the Issuer from time to time, and will be guaranteed by the Trustee. A fiscal and paying agency agreement dated 11th January, 2013 relating to the MTN Programme entered into by the Issuer, the Trustee (as guarantor), Deutsche Bank AG, Hong Kong Branch (as fiscal agent, transfer agent, paying agent and, in respect of each series of CMU Notes, as registrar), Deutsche Bank Luxembourg S.A. (as register in respect of each series of Notes other than the CMU Notes) and Deutsche Bank AG, Hong Kong Branch (as the CMU lodging and paying agent). Deutsche Bank Luxembourg S.A. and Deutsche Bank AG, Hong Kong Branch, both members of the Trustee Connected Persons Group, provide registrar, fiscal, paying and transfer agency services to Regal REIT in connection with the MTN Programme and the Notes issued thereunder for an annual fee of US\$6,000. As at 31st December, 2018, no notes under the MTN Programme were outstanding as these were repaid in full on their respective due dates on 22nd March, 2018 and 22nd May, 2018.

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

Trustee Fees

DB Trustees (Hong Kong) Limited, a member of the Trustee Connected Persons Group, was appointed as the Trustee of Regal REIT. Trustee fees aggregating approximately HK\$4.2 million were recorded during the year for services rendered in this capacity.

Waiver from Strict Compliance

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

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

VALUER CONNECTED PERSONS GROUP

Colliers, a member of the Valuer Connected Persons Group, was appointed as the principal valuer of Regal REIT for the period from December 2015 to November 2018. During the year, an amount of HK\$0.3 million in aggregate was charged for the valuation services.

CBRE, a member of the Valuer Connected Persons Group, was appointed as the new principal valuer of Regal REIT to succeed Colliers for a term of three years commencing in December 2018. During the year, an amount of HK\$0.5 million in aggregate was charged for the valuation services.

CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors of the REIT Manager have reviewed the terms of all relevant connected party transactions including those connected party transactions with the RHIHL Connected Persons Group, the Trustee Connected Persons Group and the Valuer Connected Persons Group and were satisfied that those transactions were entered into:

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

DISCLOSURE OF INTERESTS

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

HOLDINGS OF SIGNIFICANT UNITHOLDERS

As at 31st December, 2018, the interests of the Significant Unitholders (as defined in paragraph 8.1 of the REIT Code) (not being a director or chief executive of the REIT Manager) in Units, as recorded in the register (the "Register") required to be kept under the Trust Deed, were as follows:

Name of Significant Unitholders	Total number of issued Units held	Approximate percentage of the issued Units as at 31st December, 2018 ^(x)
Century City International Holdings Limited ("CCIHL")	2,443,033,102 (Note i)	74.99%
Century City BVI Holdings Limited ("CCBVI")	2,443,033,102 (Notes i & ii)	74.99%
Paliburg Holdings Limited ("PHL")	2,440,346,102 (Notes iii & iv)	74.92%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,440,346,102 (Notes iii & v)	74.92%
Regal Hotels International Holdings Limited ("RHIHL")	2,439,613,739 (Notes vi & vii)	74.89%
Regal International (BVI) Holdings Limited ("RBVI")	2,439,613,739 (Notes vi & viii)	74.89%
Complete Success Investments Limited	1,817,012,072 (Note ix)	55.78%
Great Prestige Investments Limited	373,134,326 (Note ix)	11.45%

Notes:

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

- (iv) PHL is a listed subsidiary of CCBVI, which held an approximately 62.28% shareholding interest in PHL as at 31st December, 2018, and its interests in Units are deemed to be the same interests held by CCBVI.
- (v) PDBVI is a wholly-owned subsidiary of PHL and its interests in Units are deemed to be the same interests held by PHL.
- (vi) The interests in 2,439,613,739 Units held by each of RHIHL and RBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI and Cosmopolitan, respectively.
- (vii) RHIHL is a listed subsidiary of PDBVI, which held an approximately 69.25% shareholding interest in RHIHL as at 31st December, 2018, and its interests in Units are deemed to be the same interests held by PDBVI.
- (viii) RBVI is a wholly-owned subsidiary of RHIHL and its interests in Units are deemed to be the same interests held by RHIHL.
- (ix) These companies are wholly-owned subsidiaries of RBVI and their respective direct interests in Units are deemed to be the same interests held by RBVI.
- (x) The approximate percentages were calculated based on 3,257,431,189 Units in issue as at 31st December, 2018.

Save as disclosed herein, there were no other persons who, as at 31st December, 2018, had interests in Units which are required to be recorded in the Register.

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

As at 31st December, 2018, the interests of the REIT Manager, directors and chief executives of the REIT Manager in Units, as recorded in the Register, were as follows:

Name of the REIT Manager and Director of the REIT Manager	Total number of issued Units held	Approximate percentage of the issued Units as at 31st December, 2018 ⁽ⁱⁱⁱ⁾
LO Yuk Sui	2,443,033,102 (Note i)	74.99%
Regal Portfolio Management Limited	120,381,598 (Note ii)	3.70%

Notes:

- (i) The interests in 2,443,033,102 Units were the same parcel of Units held through CCIHL in which Mr. Lo Yuk Sui held approximately 58.68% shareholding interest as at 31st December, 2018.
- (ii) Regal Portfolio Management Limited is the Manager of Regal REIT (as defined under the REIT Code).
- (iii) The approximate percentages were calculated based on 3,257,431,189 Units in issue as at 31st December, 2018.

Save as disclosed herein, as at 31st December, 2018, none of the REIT Manager, the directors and the chief executives of the REIT Manager had any interests in Units, which are required to be recorded in the Register. Save for the interests of the Significant Unitholders, the REIT Manager and the Director of the REIT Manager (also being the Connected Persons of the Regal REIT) in Units as disclosed herein, the REIT Manager is not aware of any other Connected Persons of Regal REIT holding any Units.

AUDITED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31st December, 2018

	Notes	2018 HK\$'000	2017 HK\$'000
REVENUE			
Gross rental revenue	5	983,662	922,927
Gross hotel revenue	5	38,277	34,846
		<u>1,021,939</u>	<u>957,773</u>
Property and hotel operating expenses		<u>(31,333)</u>	<u>(30,632)</u>
Net rental and hotel income	5	990,606	927,141
Interest income		980	110
Depreciation	11	(9,250)	(8,567)
Fair value changes on investment properties	12	1,789,143	2,044,180
REIT Manager fees	6	(114,093)	(119,870)
Trust, professional and other expenses	7	(17,305)	(24,377)
Finance costs – excluding distributions to Unitholders	8	<u>(288,668)</u>	<u>(224,102)</u>
PROFIT BEFORE TAX AND DISTRIBUTIONS TO UNITHOLDERS		2,351,413	2,594,515
Income tax expense	9	<u>(99,749)</u>	<u>(106,190)</u>
PROFIT FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		2,251,664	2,488,325
Finance costs – distributions to Unitholders		<u>(472,327)</u>	<u>(501,644)</u>
PROFIT FOR THE YEAR, AFTER DISTRIBUTIONS TO UNITHOLDERS		<u>1,779,337</u>	<u>1,986,681</u>
EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	10	<u>HK\$0.691</u>	<u>HK\$0.764</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2018

	Notes	2018 HK\$'000	2017 HK\$'000
PROFIT FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		2,251,664	2,488,325
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Gain on revaluation of a property	11	60,504	71,896
Income tax effect	21	(9,983)	(11,863)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		50,521	60,033
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		50,521	60,033
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		2,302,185	2,548,358

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment	11	709,000	656,000
Investment properties	12	26,994,000	25,136,000
Total non-current assets		27,703,000	25,792,000
Current assets			
Accounts receivable	13	60,982	41,714
Prepayments, deposits and other receivables	14	5,955	5,960
Due from related companies	27(b)	6,967	4,599
Tax recoverable		6,106	11,640
Restricted cash	15	68,505	67,661
Cash and cash equivalents	16	130,326	34,731
Total current assets		278,841	166,305
Total assets		27,981,841	25,958,305
Current liabilities			
Accounts payable	17	86,711	99,449
Deposits received		224	965
Due to related companies	27(b)	3,470	10,723
Other payables and accruals		50,088	52,381
Contract liabilities	18	1,246	—
Interest-bearing bank borrowings	19	439,492	877,000
Other borrowings	20	—	1,945,768
Tax payable		9,304	3,769
Total current liabilities		590,535	2,990,055
Net current liabilities		(311,694)	(2,823,750)
Total assets less current liabilities		27,391,306	22,968,250

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	19	9,473,792	6,930,603
Deposits received		2,695	2,695
Deferred tax liabilities	21	600,303	550,294
Total non-current liabilities		10,076,790	7,483,592
Total liabilities, excluding net assets attributable to Unitholders			
		10,667,325	10,473,647
Net assets attributable to Unitholders			
		17,314,516	15,484,658
Number of Units in issue			
	22	3,257,431,189	3,257,431,189
Net asset value per Unit attributable to Unitholders			
	23	HK\$5.315	HK\$4.754

The consolidated financial statements on pages 64 to 116 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 26th March, 2019 and were signed on its behalf by:

SIMON LAM MAN LIM
Executive Director

LO YUK SUI
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31st December, 2018

	Units HK\$'000	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets as at 1st January, 2018	8,432,356	15,876	209,096	6,827,330	15,484,658
Profit for the year	—	—	—	2,251,664	2,251,664
Other comprehensive income for the year:					
Gain on revaluation of a property, net of tax	—	—	50,521	—	50,521
Total comprehensive income for the year, before distributions to Unitholders	—	—	50,521	2,251,664	2,302,185
Transfer of depreciation on a hotel property	—	—	(2,271)	2,271	—
Finance costs – distributions to Unitholders	—	—	—	(472,327)	(472,327)
Net assets as at 31st December, 2018	8,432,356	15,876	257,346	8,608,938	17,314,516

For the year ended 31st December, 2017

	Units HK\$'000	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets as at 1st January, 2017	8,432,356	15,876	150,966	4,838,746	13,437,944
Profit for the year	—	—	—	2,488,325	2,488,325
Other comprehensive income for the year:					
Gain on revaluation of a property, net of tax	—	—	60,033	—	60,033
Total comprehensive income for the year, before distributions to Unitholders	—	—	60,033	2,488,325	2,548,358
Transfer of depreciation on a hotel property	—	—	(1,903)	1,903	—
Finance costs – distributions to Unitholders	—	—	—	(501,644)	(501,644)
Net assets as at 31st December, 2017	8,432,356	15,876	209,096	6,827,330	15,484,658

DISTRIBUTION STATEMENT

For the year ended 31st December, 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Profit for the year, before distributions to Unitholders		2,251,664	2,488,325
Adjustments:			
Difference in accounting rental income and contractual cash rental income		(5,661)	788
Amounts set aside for the furniture, fixtures and equipment reserve	(d)	(44,751)	(42,053)
Amortisation of debt establishment costs		22,383	16,908
Fair value changes on investment properties		(1,789,143)	(2,044,180)
Depreciation		9,250	8,567
Foreign exchange differences, net		5,455	8,971
Deferred tax charges		40,026	35,712
Distributable income for the year	(a) & (b)	489,223	473,038
		HK\$	HK\$
Distributions per Unit:			
Interim	(a)	0.074	0.074
Final	(b) & (c)	0.076	0.071
		0.150	0.145

Notes:

- Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's total distributable income as defined in the Trust Deed ("Total Distributable Income") for each financial year. The current policy of the REIT Manager is to distribute to Unitholders no less than 90% of Regal REIT's Total Distributable Income for each financial year. The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. The REIT Manager on this basis made an interim distribution of HK\$0.074 per Unit for the six months ended 30th June, 2018, resulting in a total amount of interim distribution of HK\$241.0 million.
- Pursuant to the Trust Deed, the REIT Manager determines the date (the "Record Date") in respect of each distribution period for the purpose of establishing Unitholder entitlements to distributions. The Record Date has been set as 20th May, 2019 in respect of the final distribution for the period from 1st July, 2018 to 31st December, 2018. The final distribution will be paid out to Unitholders on or about 29th May, 2019. The total amount of final distribution to be paid to Unitholders of HK\$247.6 million is arrived at based on the final distribution per Unit of HK\$0.076 and the number of Units expected to be in issue at the Record Date that are entitled to distributions. The total amount of the distributions to Unitholders for the year, being the total of the interim distribution of HK\$241.0 million and the final distribution of HK\$247.6 million, amounted to HK\$488.6 million or 99.9% of the Total Distributable Income for the year.
- The final distribution of HK\$0.076 per Unit for the period from 1st July, 2018 to 31st December, 2018, involving an amount of HK\$247.6 million, was resolved and declared by the REIT Manager on 26th March, 2019. Accordingly, the distribution is not reflected as a distribution payable in the consolidated financial statements and will be reflected in the consolidated financial statements for the year ending 31st December, 2019. The final distribution for the period from 1st July, 2017 to 31st December, 2017 of HK\$231.3 million is included in the amount of distributions paid during the year as reported in the current year consolidated financial statements.
- Amounts set aside by Regal REIT for the furniture, fixtures and equipment reserve (the "FF&E Reserve") with respect to Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels" and each referred to as the "Initial Hotel"), iclub Wan Chai Hotel, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel aggregated HK\$44.8 million (2017: HK\$42.1 million).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2018

	Notes	2018 HK\$'000	2017 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and distributions to Unitholders		2,351,413	2,594,515
Adjustments for:			
Difference in accounting rental income and contractual cash rental income	5	(5,661)	788
Fair value changes on investment properties	12	(1,789,143)	(2,044,180)
Interest income		(980)	(110)
Finance costs - excluding distributions to Unitholders	8	288,668	224,102
Depreciation	11	9,250	8,567
		<u>853,547</u>	<u>783,682</u>
Increase in accounts receivable		(13,607)	(18,824)
Decrease/(increase) in prepayments, deposits and other receivables		32	(1,090)
Increase in amounts due from related companies		(2,368)	(2)
Decrease/(increase) in restricted cash		(1)	89
Increase/(decrease) in accounts payable		(12,738)	37,269
Decrease in deposits received		(741)	(435)
Increase/(decrease) in amounts due to related companies		(7,253)	9,468
Increase/(decrease) in other payables and accruals		(20,045)	1,942
Increase in contract liabilities		1,246	—
		<u>798,072</u>	<u>812,099</u>
Cash generated from operations			
Interest received		954	110
Interest paid		(246,667)	(195,560)
Hong Kong profits tax paid		(48,654)	(123,671)
		<u>503,705</u>	<u>492,978</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(1,746)	(2,671)
Additions to investment properties		(68,857)	(99,820)
Acquisition of an investment property		—	(1,360,000)
Increase in restricted cash		(843)	(4,261)
Increase in time deposit with an original maturity of more than three months		(10,000)	—
		<u>(81,446)</u>	<u>(1,466,752)</u>
Cash flows used in investing activities			

	Notes	2018 HK\$'000	2017 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings, net of debt establishment costs		4,312,013	1,776,634
Repayment of bank borrowings		(2,224,000)	(325,000)
Repayment of other borrowings		(1,952,350)	—
Distributions paid		(472,327)	(501,644)
Net cash flows from/(used in) financing activities		(336,664)	949,990
NET CHANGE IN CASH AND CASH EQUIVALENTS		85,595	(23,784)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		34,731	58,515
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		120,326	34,731
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	16	130,326	34,731
Non-pledged time deposit with an original maturity of more than three months when acquired	16	(10,000)	—
Cash and cash equivalents as stated in the consolidated statement of cash flows		120,326	34,731

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2018

1. GENERAL

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

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

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

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. In addition, these consolidated financial statements have been prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code. The consolidated financial statements have been prepared under the historical cost convention, except for property, plant and equipment and investment properties which have been measured at fair value. These consolidated financial statements are presented in Hong Kong dollars, the functional currency of Regal REIT, and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31st December, 2018, the Group's current liabilities exceeded its current assets by HK\$311,694,000 (2017: HK\$2,823,750,000). The net current liabilities position was mainly due to the outstanding loan under the 2014 WC Facility in the principal amount of HK\$440,000,000 which will be expiring in December 2019 and has been classified under current liabilities as at the end of the reporting period. Taking into account the current available banking facilities and the stable operating cash inflows generated from rental income, the REIT Manager considers the Group has adequate resources to meet its liabilities, commitments and funding requirements as and when they fall due within one year from the end of the reporting period. Accordingly, the REIT Manager continues to adopt the going concern basis in preparing the consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31st December, 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by Regal REIT. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When Regal REIT has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as Regal REIT, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in other comprehensive income; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year financial statements.

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

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

- (a) HKFRS 9 *Financial Instruments* 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, namely, 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. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

The Group reviewed and assessed the financial assets and liabilities as at 1st January, 2018 and 31st December, 2018 based on the facts and circumstances that existed at that dates. There was no material impact on initial application of HKFRS 9 as all financial assets and financial liabilities continue to be measured on the same bases as measured under HKAS 39 *Financial Instruments: Recognition and Measurement* and no impairment was recognised at the initial date of application, 1st January, 2018.

- (b) HKFRS 15 and its amendments replaces HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new 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 principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 5 and 18 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1st January, 2018.

The adoption of HKFRS 15 has had no significant impact on consolidated statement of profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows. However, upon adoption of HKFRS 15, the Group recognised revenue-related contract liabilities for the unsatisfied performance obligation which were previously recognised as "Deposits received (current)" in the consolidated statement of financial position. Accordingly, "Contract liabilities" were increased by HK\$749,000 and "Deposits received (current)" were decreased by HK\$749,000 at the date of initial application of HKFRS 15 (1st January, 2018).

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ²
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 16	<i>Leases</i> ¹
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ²
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ¹
<i>Annual Improvements 2015 - 2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1st January, 2019

² Effective for annual periods beginning on or after 1st January, 2020

³ Effective for annual periods beginning on or after 1st January, 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

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 recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as changes in the lease terms and changes in future lease payments resulting from changes in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1st January, 2019. The Group also plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1st January, 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured as the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. As disclosed in note 25(b) to financial statements, at 31st December, 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK\$8,369,000. Upon adoption of HKFRS 16, certain amount included therein will need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new right-of-use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1st January, 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unitholders' funds

In accordance with the Trust Deed, Regal REIT has a limited life of eighty years less one day from the date of its commencement, and it is required to distribute to the Unitholders no less than 90% of its Total Distributable Income for each financial year. Accordingly, Regal REIT has contractual obligations to the Unitholders to pay cash dividends and also, upon the termination of Regal REIT, a share of all net cash proceeds derived from the sale or realisation of the assets of Regal REIT less any liabilities, in accordance with the proportionate interests of the Unitholders in Regal REIT at the date of its termination. The Unitholders' funds are, therefore, classified as financial liabilities in accordance with HKAS 32 *Financial Instruments: Presentation*.

Fair value measurement

The Group measures its property, plant and equipment and investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The policies and procedures for both recurring fair value measurement, such as investment properties and property, plant and equipment, and non-recurring measurement are determined by the Trust Deed. The REIT Manager shall select and recommend one or more property valuers to the Trustee and the Trustee shall, subject to the provisions in the Trust Deed and the REIT Code, on the written instructions of the REIT Manager, appoint a property valuer recommended by the REIT Manager for the valuation of the Group's properties.

The REIT Manager has discussions with the external valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at valuation less accumulated depreciation and any impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the consolidated statement of profit or loss. Any subsequent revaluation surplus is credited to the consolidated statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for hotel properties are over the lease term (for land) and over the shorter of the lease term and 2.5% (for buildings together with furniture, fixtures and equipment).

Where parts of an item of property, plant and equipment have different useful lives, the cost of such items are allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair values, which reflect market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the year of the retirement or disposal.


Financial assets (policies under HKFRS 9 applicable from 1st January, 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of accounts receivable that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures such financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Accounts receivable that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1st January, 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.



The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement of financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the consolidated statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets (policies under HKAS 39 applicable before 1st January, 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement of loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in the consolidated statement of profit or loss.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1st January, 2018 and policies under HKAS 39 applicable before 1st January, 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1st January, 2018)

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset to be in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for accounts receivable which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12 month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated as credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For accounts receivable that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under HKAS 39 applicable before 1st January, 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowances are written off when there are no realistic prospects of future recoveries and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the consolidated statement of profit or loss.

Financial liabilities (policies under HKFRS 9 applicable from 1st January, 2018 and policies under HKAS 39 applicable before 1st January, 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement of loans and borrowings and payables

After initial recognition, interest-bearing loans and borrowings and payables are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is recognised in the consolidated statement of profit or loss.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1st January, 2018 and policies under HKAS 39 applicable before 1st January, 2018)

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1st January, 2018 and policies under HKAS 39 applicable before 1st January, 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in net assets.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable future taxable profits will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent it has become probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss on the straight-line basis over the lease terms.

Revenue recognition (applicable from 1st January, 2018)

Revenue from leases

Rental income is recognised on the following bases:

- (a) Base Rent from operating leases, on the straight-line basis over the terms of the relevant leases;
- (b) Variable Rent, in the accounting period in accordance with the terms of the respective agreements; and
- (c) other rental income, on a time proportion basis over the lease terms.

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Revenue from hotel operations comprises of the provision of room and ancillary services and is recognised over time in the accounting period in which the services are rendered.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Revenue recognition (applicable before 1st January, 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) Base Rent from operating leases, on the straight-line basis over the terms of the relevant leases;
- (b) Variable Rent, in the accounting period in accordance with the terms of the respective agreements;
- (c) hotel revenue, in the period in which relevant service is rendered;
- (d) other rental income, on a time proportion basis over the lease terms; and
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities (applicable from 1st January, 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Foreign currency transactions

These consolidated financial statements are presented in Hong Kong dollars, which is Regal REIT's functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of fair values of investment properties and property, plant and equipment

The fair value of each investment property and item of property, plant and equipment is individually determined at the end of each reporting period by an independent valuer based on a market value assessment. The valuer has relied on the income approach – discounted cash flow analysis as its primary method supported by the direct comparison approach. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy or occupancy, and cash flow profile. The discounted cash flow projections of each investment property and property, plant and equipment are based on reliable estimates of expected future cash flows, supported by the terms of any existing leases, other contracts, projection of hotel operating income and (when possible) by external evidence, and using discount rates that reflect current market assessments of the uncertainty in the amounts and timing of the cash flows. In respect of the leases of each investment property and item of property, plant and equipment, due consideration has also been given to the expectation of the renewal of the leases with the Government of the Hong Kong Special Administrative Region upon expiry without paying any land premiums, which is a widely accepted practice used in the property market, and is widely accepted by other real estate investment trusts in Hong Kong.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profit will be available against which the carryforward of unused tax losses can be utilised. Recognition of deferred tax primarily involves judgements and estimations regarding the future performance of the Group. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portions or all of the deferred tax assets will ultimately be realised, such as tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amounts of deferred tax assets and related taxable profits projections are reviewed at the end of each reporting period.

Provision for expected credit losses on accounts receivable

The Group uses a provision matrix to calculate ECLs for accounts receivable. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The financial impact of ECLs for accounts receivable under HKFRS 9 was insignificant for the year ended 31st December, 2018. The information about the Group's accounts receivable is disclosed in note 13 to the consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

Operating segments of the Group are identified on the basis of internal reports covering the components of the Group which are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to segments and assess their performance. Information reported to the Group's chief operating decision-maker, for the above-mentioned purposes, is mainly focused on the segment results related to the nature of properties, namely, the hotel properties and the mixed use property. For management purposes, the two reportable operating segments are (i) the hotel properties segment which invested in the Initial Hotels, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the iclub Ma Tau Wai Hotel; and (ii) the mixed use property segment which invested in the iclub Wan Chai Hotel and is made up of the hotel portion and non-hotel portions.

The operating segments of the Group for the year ended 31st December, 2018 are as follows:

	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Segment revenue			
Gross rental revenue	976,456	7,206	983,662
Gross hotel revenue	—	38,277	38,277
Total	<u>976,456</u>	<u>45,483</u>	<u>1,021,939</u>
Segment results	<u>964,884</u>	<u>25,722</u>	990,606
Fair value changes on investment properties	1,789,143	—	1,789,143
Depreciation	—	(9,250)	(9,250)
Interest income			980
REIT Manager fees			(114,093)
Trust, professional and other expenses			(17,305)
Finance costs - excluding distributions to Unitholders			<u>(288,668)</u>
Profit before tax and distributions to Unitholders			<u>2,351,413</u>

The operating segments of the Group for the year ended 31st December, 2017 were as follows:

	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Segment revenue			
Gross rental revenue	916,012	6,915	922,927
Gross hotel revenue	—	34,846	34,846
Total	<u>916,012</u>	<u>41,761</u>	<u>957,773</u>
Segment results	<u>904,084</u>	<u>23,057</u>	927,141
Fair value changes on investment properties	2,041,180	3,000	2,044,180
Depreciation	—	(8,567)	(8,567)
Interest income			110
REIT Manager fees			(119,870)
Trust, professional and other expenses			(24,377)
Finance costs - excluding distributions to Unitholders			(224,102)
Profit before tax and distributions to Unitholders			<u>2,594,515</u>

Segment assets and liabilities

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

As at 31st December, 2018, the Group's segment assets, comprised of the aggregate fair values of the investment properties and property, plant and equipment in the hotel properties segment and the mixed use property segment, amounted to HK\$26,773,000,000 (2017: HK\$24,915,000,000) and HK\$930,000,000 (2017: HK\$877,000,000), respectively.

Save as set out above, no other assets and liabilities are included in the assessment of the Group's segment performance.

Other segment information

	Year ended 31st December, 2018		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditures	<u>68,857</u>	<u>1,746</u>	<u>70,603</u>

	Year ended 31st December, 2017		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditures	<u>99,820</u>	<u>2,671</u>	<u>102,491</u>

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

Information about a major customer

For the year ended 31st December, 2018, revenue of HK\$976,456,000 (2017: HK\$916,012,000) was derived from the lease of the hotel properties to a single lessee which is a related company.

Geographical information

The Group's investment properties and property, plant and equipment are all located in Hong Kong.

5. NET RENTAL AND HOTEL INCOME

Revenue represents the gross rental revenue received and receivable from its investment properties, and gross hotel revenue during the year.

The net rental and hotel income represents the aggregate of:

- (a) Net rental income, being the gross rental revenue less property operating expenses; and
- (b) Net hotel income, being the gross hotel revenue less hotel operating expenses.

An analysis of the gross and net rental and hotel income is as follows:

	Notes	2018 HK\$'000	2017 HK\$'000
Gross rental revenue			
Rental income			
Initial Hotels	(a)	813,351	770,139
iclub Wan Chai Hotel – Non-hotel portions		7,206	6,915
iclub Sheung Wan Hotel	(b)	46,587	46,306
iclub Fortress Hill Hotel	(c)	43,990	68,224
iclub Ma Tau Wai Hotel	(d)	61,166	19,942
Other income		11,362	11,401
		983,662	922,927
Property operating expenses		(12,237)	(12,527)
Net rental income		971,425	910,400
Gross hotel revenue			
Hotel operating expenses		38,277	34,846
		(19,096)	(18,105)
Net hotel income		19,181	16,741
Net rental and hotel income		990,606	927,141
Revenue from contracts with customers			
Gross hotel revenue	(e)	38,277	34,846
Revenue from other sources			
Gross rental income		983,662	922,927

Notes:

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

	2018	2017
	HK\$'000	HK\$'000
Base Rent	751,000	733,000
Variable Rent	62,351	37,139
	813,351	770,139

(b) According to the 2018 Market Rental Package, Regal REIT received Base Rent and Variable Rent for the year ended 31st December, 2018. An analysis of the iclub Sheung Wan Hotel rental income is as follows:

	2018	2017
	HK\$'000	HK\$'000
Contractual cash rental income	—	9,489
Difference in accounting rental income and contractual cash rental income	—	(407)
Base Rent	42,000	36,485
Variable Rent	4,587	739
	46,587	46,306

(c) According to the 2018 Market Rental Package, Regal REIT received Base Rent and Variable Rent for the year ended 31st December, 2018. An analysis of the iclub Fortress Hill Hotel rental income is as follows:

	2018	2017
	HK\$'000	HK\$'000
Contractual cash rental income	—	51,962
Difference in accounting rental income and contractual cash rental income	—	(2,643)
Base Rent	42,390	17,611
Variable Rent	1,600	1,294
	43,990	68,224

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

	2018	2017
	HK\$'000	HK\$'000
Contractual cash rental income	55,505	17,680
Difference in accounting rental income and contractual cash rental income	5,661	2,262
	61,166	19,942

(e) Gross hotel revenue is recognised over time.

6. REIT MANAGER FEES

	2018 HK\$'000	2017 HK\$'000
Base Fees	83,945	77,875
Variable Fees	30,148	28,395
Acquisition Fee	—	13,600
	<u>114,093</u>	<u>119,870</u>

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

- a base fee (the "Base Fee") of currently 0.3% (subject to a maximum of 0.5%) per annum of the consolidated gross assets of Regal REIT which is payable monthly (in the form of Units and/or cash) and subject to adjustments (in the form of cash) based on the value of the audited total assets of Regal REIT as at the end of the reporting period for the relevant financial year;
- a variable fee (the "Variable Fee") of currently 3% (subject to a maximum of 5%) per annum of the net property income for the relevant financial year as defined in the Trust Deed in respect of each Initial Hotel, iclub Wan Chai Hotel, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel, which is payable annually; and
- an acquisition fee (the "Acquisition Fee") not exceeding 1% of the purchase price of the real estate acquired by Regal REIT (pro-rated, if applicable, to the proportion of Regal REIT's interest in the real estate acquired).

For the financial year 2018, the REIT Manager elected to receive its Base Fees and Variable Fees in the form of cash, details of which can be referred to an announcement of Regal REIT published on 1st December, 2017.

7. TRUST, PROFESSIONAL AND OTHER EXPENSES

	2018 HK\$'000	2017 HK\$'000
Auditor's remuneration:		
Audit fees	1,850	1,800
Non-audit fees	465	937
Legal and other professional fees	3,249	6,411
Trustee fees	4,197	3,944
Valuation fees	610	730
Foreign exchange differences, net	5,455	8,971
Other expenses	1,479	1,584
	<u>17,305</u>	<u>24,377</u>

Regal REIT did not appoint any directors and the Group did not engage any employees during the year (2017: Nil) and, accordingly, no director and employee benefit expenses were incurred during the year (2017: Nil).

8. FINANCE COSTS - EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

	2018 HK\$'000	2017 HK\$'000
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on interest-bearing bank borrowings	236,633	122,282
Interest expense on other borrowings	26,217	81,799
Amortisation of debt establishment costs	22,383	16,908
	<u>285,233</u>	<u>220,989</u>
Others	3,435	3,113
	<u>288,668</u>	<u>224,102</u>

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2018 HK\$'000	2017 HK\$'000
Charge for the year	59,482	73,899
Under/(over) provision in prior years	241	(3,421)
Deferred (note 21)	40,026	35,712
	<u>99,749</u>	<u>106,190</u>

A reconciliation of the tax charge applicable to profit before tax and distributions to Unitholders at the Hong Kong statutory tax rate of 16.5% (2017: 16.5%) to the tax charge at the Group's effective tax rate is as follows:

	2018 HK\$'000	2017 HK\$'000
Profit before tax and distributions to Unitholders	<u>2,351,413</u>	<u>2,594,515</u>
Tax charge at the statutory tax rate	387,983	428,095
Adjustments in respect of current tax of previous periods	241	(3,421)
Income not subject to tax	(295,370)	(337,308)
Expenses not deductible for tax	6,223	19,235
Others	672	(411)
	<u>99,749</u>	<u>106,190</u>

10. EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of the basic earnings per Unit attributable to Unitholders is based on the profit for the year before distributions to Unitholders of HK\$2,251,664,000 (2017: HK\$2,488,325,000) and the weighted average of 3,257,431,189 Units (2017: 3,257,431,189 Units) in issue during the year. The basic earnings per Unit attributable to Unitholders for the year amounted to HK\$0.691 (2017: HK\$0.764).

The diluted earnings per Unit attributable to Unitholders is the same as the basic earnings per Unit attributable to Unitholders as there were no dilutive instruments in issue during the year (2017: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK\$'000
At 1st January, 2017	590,000
Additions	2,671
Surplus on revaluation	71,896
Depreciation provided during the year	<u>(8,567)</u>
At 31st December, 2017 and 1st January, 2018	656,000
Additions	1,746
Surplus on revaluation	60,504
Depreciation provided during the year	<u>(9,250)</u>
At 31st December, 2018	<u>709,000</u>

The Group's property, plant and equipment represents the value of land and building together with furniture, fixtures and equipment of iclub Wan Chai Hotel for the hotel portion. The REIT Manager has determined that the property, plant and equipment constitute one class of asset (i.e. hotel property) based on the nature, characteristics and risks of the property. The property, plant and equipment was valued by CBRE Limited ("CBRE"), an independent property valuer and the principal valuer of Regal REIT, at HK\$709,000,000 as at 31st December, 2018 (2017: HK\$656,000,000). A revaluation surplus of HK\$60,504,000 (2017: HK\$71,896,000) resulting from the valuation as at 31st December, 2018 has been credited to other comprehensive income.

The property, plant and equipment is categorised as Level 3 in the fair value hierarchy (note 29).

The iclub Wan Chai Hotel has been pledged to secure banking facilities granted to the Group (note 19).

The carrying amount of the Group's property, plant and equipment would have been HK\$400,802,000 (2017: HK\$405,586,000) had such assets been stated in the consolidated financial statements at cost less accumulated depreciation.

Further particulars of the Group's hotel properties are included on page 183.

12. INVESTMENT PROPERTIES

The REIT Manager has determined that the investment properties constitute two classes of asset (i.e. hotel and commercial properties) based on the nature, characteristics and risks of each property are set out below.

	Hotel properties HK\$'000	Commercial properties HK\$'000	Total HK\$'000
At 1st January, 2017	21,414,000	218,000	21,632,000
Addition	1,360,000	—	1,360,000
Fair value changes	2,041,180	3,000	2,044,180
Capital expenditures for the year	99,820	—	99,820
	24,915,000	221,000	25,136,000
At 31st December, 2017 and 1st January, 2018			
Fair value changes	1,789,143	—	1,789,143
Capital expenditures for the year	68,857	—	68,857
	26,773,000	221,000	26,994,000
At 31st December, 2018			

The Group's investment properties were valued by CBRE at HK\$26,994,000,000 as at 31st December, 2018 (2017: HK\$25,136,000,000). The investment properties are leased to a related company and other commercial tenants under operating leases, further details of which are included in note 25(a) to the consolidated financial statements.

The investment properties are categorised as Level 3 in the fair value hierarchy (note 29).

Initial Hotels, together with iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel, have been pledged to secure banking facilities granted to the Group (note 19).

Further particulars of the Group's investment properties are included on pages 182 to 183.

13. ACCOUNTS RECEIVABLE

	2018 HK\$'000	2017 HK\$'000
Difference in accounting rental income and contractual cash rental income	7,923	2,262
Variable Rent receivables	51,738	38,100
Other accounts receivable	1,321	1,352
	60,982	41,714

The difference in accounting rental income and contractual cash rental income is recognised as revenue in the consolidated statement of profit or loss on the straight-line basis over the lease term in accordance with the Group's accounting policy.

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

The Variable Rent receivables represent amounts due from a related company which are unsecured, interest-free and receivable in accordance with the terms of the respective agreements.

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

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	HK\$'000	HK\$'000
Prepayments	406	426
Deposits and other receivables	5,549	5,534
	5,955	5,960

Deposits in the amount of HK\$1,212,000 (2017: HK\$1,212,000) were placed with a related company with respect to services provided to iclub Wan Chai Hotel. The amounts are unsecured, interest-free and repayable on demand.

15. RESTRICTED CASH

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

16. CASH AND CASH EQUIVALENTS

	2018 HK\$'000	2017 HK\$'000
Cash and bank balances	105,326	34,731
Non-pledged time deposit with an original maturity of less than three months when acquired	15,000	—
Non-pledged time deposit with an original maturity of more than three months when acquired	10,000	—
Cash and cash equivalents	<u>130,326</u>	<u>34,731</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

17. ACCOUNTS PAYABLE

	2018 HK\$'000	2017 HK\$'000
Amounts due to related companies	86,437	98,831
Other accounts payable	274	618
	<u>86,711</u>	<u>99,449</u>

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

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

18. CONTRACT LIABILITIES

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

	31st December, 2018 HK\$'000	1st January, 2018 HK\$'000
Advances from customers	<u>1,246</u>	<u>749</u>

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

19. INTEREST-BEARING BANK BORROWINGS

	2018 HK\$'000	2017 HK\$'000
Interest-bearing bank borrowings	9,980,000	7,857,000
Debt establishment costs	(66,716)	(49,397)
	9,913,284	7,807,603
Portion classified as current liabilities	(439,492)	(877,000)
Non-current portion	9,473,792	6,930,603
Amounts repayable:		
Within one year	439,492	877,000
In the second year	746,121	1,726,633
In the third to fifth years, inclusive	8,727,671	5,203,970
	9,913,284	7,807,603

On 12th September, 2016, Regal REIT, through wholly-owned subsidiaries, Bauhinia Hotels Limited and Rich Day Investments Limited, entered into a facility agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$1,000.0 million (the "2016 IH Facilities"), for a term of five years to September 2021. The 2016 IH Facilities are secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. As at 31st December, 2018, the 2016 IH Facilities had an outstanding term loan facility of HK\$4,500.0 million and the full amount of the revolving loan facility was un-utilised.

On 8th March, 2018, Regal REIT, through a wholly-owned subsidiary, Ricobem Limited, arranged a bilateral term loan facility of HK\$3,000.0 million (the "2018 RKH Facility"), secured by a mortgage over the Regal Kowloon Hotel. The 2018 RKH Facility was drawn down mainly for refinancing the notes under the medium term note programme ("MTN Programme") that matured in March 2018 and May 2018, respectively. The 2018 RKH Facility has a term of five years to March 2023. As at 31st December, 2018, the outstanding amount of the 2018 RKH Facility was HK\$3,000.0 million, representing the full amount of the term loan facility.

On 22nd December, 2014, a term loan facility agreement for a principal amount of HK\$440.0 million (the "2014 WC Facility"), with a term of five years to December 2019, was entered into by Sonnix Limited, a wholly-owned subsidiary of Regal REIT. The 2014 WC Facility is secured by the iclub Wan Chai Hotel. As at 31st December, 2018, the outstanding amount of the 2014 WC Facility was HK\$440.0 million, representing the full amount of the term loan facility.

On 19th October, 2018, Regal REIT, through a wholly-owned subsidiary, Tristan Limited, arranged a new bilateral loan facility of up to HK\$790.0 million, comprised of a term loan facility of HK\$632.0 million and a revolving loan facility of up to HK\$158.0 million (the "2018 SW Facilities"), secured by the iclub Sheung Wan Hotel to replace the then term and revolving loan facilities of HK\$790.0 million. The 2018 SW Facilities have a term of five years to October 2023. As at 31st December, 2018, the utilised amount of the 2018 SW Facilities was HK\$632.0 million, representing the full amount of the term loan facility.

On 29th November, 2018, Regal REIT, through a wholly-owned subsidiary, Wise Decade Investments Limited, arranged another new bilateral loan facility of up to HK\$825.0 million, comprised of a term loan facility of HK\$660.0 million and a revolving loan facility of up to HK\$165.0 million (the "2018 FH Facilities"), secured by the iclub Fortress Hill Hotel to replace the then term and revolving loan facilities of HK\$825.0 million. The 2018 FH Facilities have a term of five years to November 2023. As at 31st December, 2018, the outstanding amount of the 2018 FH Facilities was HK\$660.0 million, representing the full amount of the term loan facility.

On 4th September, 2017, Regal REIT, through a wholly-owned subsidiary, Land Crown International Limited, arranged a term loan facility of HK\$748.0 million (the "2017 MTW Facility"), secured by the iclub Ma Tau Wai Hotel. The 2017 MTW Facility has a term of three years to September 2020. As at 31st December, 2018, the outstanding amount of the 2017 MTW Facility was HK\$748.0 million, representing the full amount of the term loan facility.

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

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

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

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

20. OTHER BORROWINGS

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

Subsequent to the establishment and listing of the US\$1.0 billion MTN Programme, in March 2013, a series of unsecured 5-year term notes for an aggregate amount of HK\$775.0 million at a coupon interest rate of 4.125% per annum were issued. The notes were issued at 99.44% of the nominal amount after discount. In May 2013, another series of unsecured 5-year term notes for an aggregate amount of US\$150.0 million at a coupon interest rate of 4.10% per annum were issued. The notes were issued at 99.553% of the nominal amount after discount. These notes under the MTN Programme were repaid in full on their respective due dates on 22nd March, 2018 and 22nd May, 2018.

21. DEFERRED TAX

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

	Fair value adjustments arising from revaluation of property, plant and equipment HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
Gross deferred tax assets/(liabilities) at 1st January, 2017	(29,832)	(476,504)	3,617	(502,719)
Deferred tax charged to other comprehensive income during the year	(11,863)	—	—	(11,863)
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 9)	376	(47,130)	11,042	(35,712)
Gross deferred tax assets/(liabilities) at 31st December, 2017	<u>(41,319)</u>	<u>(523,634)</u>	<u>14,659</u>	<u>(550,294)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2018	(41,319)	(523,634)	14,659	(550,294)
Deferred tax charged to other comprehensive income during the year	(9,983)	—	—	(9,983)
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 9)	<u>449</u>	<u>(37,175)</u>	<u>(3,300)</u>	<u>(40,026)</u>
Gross deferred tax assets/(liabilities) at 31st December, 2018	<u>(50,853)</u>	<u>(560,809)</u>	<u>11,359</u>	<u>(600,303)</u>

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

22. NUMBER OF UNITS IN ISSUE

	Number of Units	
	2018	2017
At beginning and end of the year	<u>3,257,431,189</u>	<u>3,257,431,189</u>

23. NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per Unit attributable to Unitholders is calculated by dividing the net assets attributable to Unitholders as at 31st December, 2018 of HK\$17,314,516,000 (2017: HK\$15,484,658,000) by the number of Units in issue of 3,257,431,189 (2017: 3,257,431,189) as at that date.

24. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings HK\$'000	Other borrowings HK\$'000
At 1st January, 2018	7,807,603	1,945,768
Changes from financing cash flows	2,088,013	(1,952,350)
Non-cash changes:		
Increase in debt establishment cost payable	(4,125)	—
Amortisation of debt establishment costs	21,793	590
Interest expense	—	596
Foreign exchange movement	—	5,396
At 31st December, 2018	<u>9,913,284</u>	<u>—</u>
	Interest-bearing bank borrowings HK\$'000	Other borrowings HK\$'000
At 1st January, 2017	6,340,746	1,933,339
Changes from financing cash flows	1,451,634	—
Non-cash changes:		
Amortisation of debt establishment costs	15,223	1,685
Interest expense	—	1,912
Foreign exchange movement	—	8,832
At 31st December, 2017	<u>7,807,603</u>	<u>1,945,768</u>

25. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

	2018	2017
	HK\$'000	HK\$'000
Within one year	941,145	906,600
In the second to fifth years, inclusive	175,747	241,411
	<u>1,116,892</u>	<u>1,148,011</u>

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

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

(b) As lessee

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

	2018	2017
	HK\$'000	HK\$'000
Within one year	7,805	9,271
In the second to fifth years, inclusive	564	888
	<u>8,369</u>	<u>10,159</u>

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

During the year ended 31st December, 2018, the total minimum lease payments under operating leases in respect of land and buildings included in property and hotel operating expenses of HK\$9,320,000 (2017: HK\$9,361,000) were charged to the consolidated statement of profit or loss.

26. COMMITMENTS

In addition to the operating lease commitments detailed in note 25(b) above, the Group had the following capital commitments in respect of its properties at the end of the reporting period:

	2018	2017
	HK\$'000	HK\$'000
Authorised, but not contracted for	<u>72,996</u>	<u>103,227</u>

27. CONNECTED AND RELATED PARTY TRANSACTIONS

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

Connected/related parties	Relationship with the Group
DB Trustees (Hong Kong) Limited	The Trustee of Regal REIT
Deutsche Bank AG and its associates (the "Deutsche Bank Group")	Connected persons of the Trustee
Regal Hotels International Holdings Limited and other members of its group (collectively the "RHIHL Group")	Significant Unitholder of Regal REIT
Regal Portfolio Management Limited	The REIT Manager of Regal REIT and a member of the RHIHL Group
Paliburg Holdings Limited and other members of its group (collectively the "PHL Group")	Controlling shareholders of the RHIHL Group
P&R Holdings	A joint venture company held by the PHL Group and the RHLHL Group
CBRE Limited	The current principal valuer of the Group
Colliers International (Hong Kong) Limited	The former principal valuer of the Group

(a) Transactions with connected/related parties:

	Notes	2018 HK\$'000	2017 HK\$'000
Contractual rental income received/receivable from the RHIHL Group	(i)	970,795	916,800
Rental income received/receivable from the RHIHL Group	(ii)	1,843	1,473
Hotel management fees charged by the RHIHL Group	(iii)	(1,775)	(1,578)
Marketing fees charged by the RHIHL Group	(iv)	(383)	(348)
Building management fees charged by the PHL Group	(v)	(599)	(589)
REIT Manager fees	(vi)	(114,093)	(119,870)
Trustee fees	(vii)	(4,197)	(3,944)
Valuation and other services fees paid/payable to the principal valuer	(viii)	(750)	(1,077)
Meeting fees charged by the RHIHL Group	(ix)	—	(154)
Acquisition of an investment property and related current assets	(x)	—	(1,361,262)

Notes:

- (i) The rental income earned by the Group was in accordance with the relevant lease agreements with respect to the Initial Hotels, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel.
- (ii) The rental income earned by the Group was in accordance with the relevant tenancy agreement with respect to Shop Nos. A & B, which is part of the iclub Wan Chai Hotel.
- (iii) The hotel management fees in respect of iclub Wan Chai Hotel – Hotel portion were comprised of (a) a base fee, for an amount based on 2% of the gross hotel revenue, and (b) an incentive fee based on 5% of the excess of the gross operating profit over the base fee and fixed charges in accordance with the corresponding hotel management agreement.
- (iv) The marketing fees in respect of iclub Wan Chai Hotel – Hotel portion were charged at 1% of the gross hotel revenue of iclub Wan Chai Hotel – Hotel portion in accordance with the corresponding hotel management agreement.
- (v) The building management fees were charged at a mutually agreed amount payable on a monthly basis in respect of iclub Wan Chai Hotel – Non-hotel portions.
- (vi) The REIT Manager is entitled to receive Base Fees, Variable Fees and Acquisition Fee, details of which, including the terms, are set out in note 6 to the consolidated financial statements.
- (vii) The Trustee is entitled to receive trustee fees (calculated and payable quarterly) at rates ranging from 0.015% per annum to 0.025% per annum based on the value of all the assets of Regal REIT as at the end of the reporting period subject to a minimum of HK\$66,000 per month.
- (viii) The valuation and other services fees were charged by the principal valuer in accordance with the terms of the relevant agreements.
- (ix) The meeting fees were charged at mutually agreed amounts.
- (x) The Group acquired an investment property and related current assets from P&R Holdings in accordance with the sale and purchase agreement.

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

- (b) Balances at 31st December with connected/related parties were as follows:

	Notes	2018 HK\$'000	2017 HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables	(i)	51,738	38,100
Accounts payable to related companies	(ii)	(86,437)	(98,831)
Deposit received	(iv)	(461)	(461)
Other payables	(ii)	—	(154)
Amounts due from related companies	(ii)	6,967	4,599
Amounts due to related companies	(ii)	(3,470)	(10,723)
Net amounts due from the PHL Group:			
Deposits paid	(ii)	1,212	1,212
Net amounts due to:			
The Trustee	(iii)	(1,245)	(1,231)
The principal valuer	(iv)	(350)	(510)
Restricted and non-restricted bank balances with the Deutsche Bank Group	(v)	155	156

Notes:

- (i) Details of the balances are set out in note 13 to the consolidated financial statements.
 - (ii) The amounts are unsecured, interest-free and repayable on demand/within one year.
 - (iii) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
 - (iv) The amount is repayable in accordance with the terms of the relevant agreement.
 - (v) The bank balances earn interest at prevailing market rates.
- (c) The RHIHL Group has guaranteed to pay all amounts from time to time owing or payable by the lessee of the Initial Hotels to the Group under the respective lease agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. In this connection, the RHIHL Group undertook to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK\$4 billion. Under the Market Rental Package for 2018, the RHIHL Group provided a third party guarantee as a security deposit for an amount of HK\$187.75 million (2017: HK\$183.25 million), which is equivalent to three-month Base Rent for the year 2018, issued by a licensed bank in Hong Kong.
- (d) Under a deed of trade mark licence, the RHIHL Group granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trade marks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.
- (e) On 23rd December, 2010, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Wan Chai Hotel for a 10-year term commencing on 1st January, 2011.
- (f) On 10th February, 2014, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Sheung Wan Hotel for a 10-year term commencing on 10th February, 2014.
- (g) On 28th July, 2014, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Fortress Hill Hotel for a 10-year term commencing on 28th July, 2014.
- (h) On 4th September, 2017, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Ma Tau Wai Hotel for a 10-year term commencing on 4th September, 2017.

28. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Financial assets at amortised cost 2018 HK\$'000	Loans and receivables 2017 HK\$'000
Accounts receivable	60,982	41,714
Financial assets included in prepayments, deposits and other receivables	5,549	5,534
Due from related companies	6,967	4,599
Restricted cash	68,505	67,661
Cash and cash equivalents	130,326	34,731
	272,329	154,239

Financial liabilities

	Financial liabilities at amortised cost	
	2018 HK\$'000	2017 HK\$'000
Accounts payable	86,711	99,449
Deposits received	2,919	3,660
Due to related companies	3,470	10,723
Other payables and accruals	50,088	52,381
Contract liabilities	1,246	—
Interest-bearing bank borrowings	9,913,284	7,807,603
Other borrowings	—	1,945,768
	10,057,718	9,919,584

29. FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's non-financial assets:

Assets measured at fair value:

As at 31st December, 2018

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Property, plant and equipment	—	—	709,000	709,000
Investment properties	—	—	26,994,000	26,994,000
	—	—	27,703,000	27,703,000

As at 31st December, 2017

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Property, plant and equipment	—	—	656,000	656,000
Investment properties	—	—	25,136,000	25,136,000
	—	—	25,792,000	25,792,000

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

The income approach - discounted cash flow analysis was used for the valuation of property, plant and equipment and investment properties, with the following key inputs:

(a) Property, plant and equipment

	Range 2018	Range 2017
Significant unobservable inputs		
Capitalisation rate	3.00%	3.25%
Discount rate	6.00%	6.25%
Growth rate p.a. (Approximately)	2.7% to 9.0%	2.7% to 9.0%
Occupancy rate	96%	95% to 96%
Room rate per day (Approximately)	HK\$1,200 to HK\$1,600	HK\$1,100 to HK\$1,700
Gross operating profit (as a % of revenue) (Approximately)	57% to 59%	56% to 57%

(b) Investment properties

	Range 2018	Range 2017
Significant unobservable inputs	Asset Class	
Capitalisation rate	Hotel and commercial	2.50% to 3.75%
Discount rate	Hotel and commercial	5.50% to 6.75%
Growth rate p.a. (Approximately)	Hotel	2.7% to 11.6%
Occupancy rate	Hotel	88% to 96%
Room rate per day (Approximately)	Hotel	70% to 97%
Gross operating profit (as a % of revenue) (Approximately)	Hotel	HK\$700 to HK\$2,200
Estimated rental p.a. (Approximately)	Commercial	36% to 65%
	Commercial	29% to 64%
	Commercial	HK\$7,000,000 to HK\$8,900,000
	Commercial	HK\$6,600,000 to HK\$9,100,000

Under the income approach - discounted cash flow analysis, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewals and related relettings, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less operating expenses, the FF&E Reserve, building insurance, government rates and rent, base management fees and incentive fees. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase/(decrease) in the estimated rent, the room rate per day, the occupancy rate and the growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the hotel properties. A significant increase/(decrease) in the capitalisation rate and the discount rate in isolation would result in a significant (decrease)/increase in the fair value of the hotel properties. Generally, a change in the assumption made for the room rate per day is accompanied by a directionally similar change in the growth rate per annum and the discount rate.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The REIT Manager reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. Interest rate risk is managed by the REIT Manager on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

For Hong Kong dollar borrowings, assuming the amount of bank borrowings outstanding at the end of the reporting period was outstanding for the whole year, a 100 basis point increase in interest rates would have hypothetically decreased the Group's profit before tax and distributions to Unitholders for the current year by HK\$99.8 million (2017: HK\$78.6 million). A 10 basis point decrease in interest rates would have hypothetically increased the Group's profit before tax and distributions to Unitholders for the current year by HK\$10.0 million (2017: HK\$7.9 million).

The sensitivity to the interest rates used above is considered reasonable with the other variables held constant.

Credit risk

Credit risk is the potential financial loss which could result from the failure of a tenant or counterparty to settle its financial and contractual obligations to the Group as and when they fall due. The REIT Manager monitors the balances of its lessees on an ongoing basis. Currently, all the investment properties held by the Group are leased to lessees. Cash and fixed deposits are placed with authorised institutions which are regulated. Transactions involving financial instruments are carried out only with authorised institutions with sound credit ratings.

The Group applies the simplified approach for ECLs of accounts receivable. For financial assets included in prepayments, deposits and other receivables, amounts due from related companies, restricted cash, and cash and cash equivalents, they are classified within stage 1 for measurement of ECLs.

The maximum exposure to credit risk is the carrying amounts of such financial assets on the consolidated statement of financial position.

Liquidity risk

The REIT Manager monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations. In addition, the REIT Manager observes the REIT Code issued by the SFC concerning limits on total borrowings and monitors the level of borrowings of Regal REIT so that it is within the permitted limits.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2018			Total HK\$'000
	On demand HK\$'000	Less than 12 months HK\$'000	1 to 5 years HK\$'000	
Accounts payable	86,437	274	—	86,711
Deposits received	—	224	2,695	2,919
Due to related companies	—	3,470	—	3,470
Other payables and accruals	—	50,088	—	50,088
Contract liabilities	—	1,246	—	1,246
Interest-bearing bank borrowings	—	749,816	10,235,926	10,985,742
	86,437	805,118	10,238,621	11,130,176

	2017			Total HK\$'000
	On demand HK\$'000	Less than 12 months HK\$'000	1 to 5 years HK\$'000	
Accounts payable	98,831	618	—	99,449
Deposits received	—	965	2,695	3,660
Due to related companies	—	10,723	—	10,723
Other payables and accruals	—	52,381	—	52,381
Interest-bearing bank borrowings	—	1,045,408	7,313,841	8,359,249
Other borrowings	—	1,972,519	—	1,972,519
	98,831	3,082,614	7,316,536	10,497,981

Capital management

The objective of the Group is to employ a growth-oriented capital structure to maximise cash flows while maintaining flexibility in funding any future acquisitions. The Group's excess borrowing capacity will be utilised to meet funding requirements relating to acquisitions of properties, as well as capital expenditures for the enhancement of the properties held by the Group.

The Group also adopts a prudent capital management policy to ensure that the leverage ratio will not exceed the threshold percentage under the REIT Code and relevant provisions in the banking facility agreements.

The Group monitors the capital management position using the loan-to-value ratio and the gearing ratio. At the end of the reporting period, the loan-to-value ratios in connection with certain utilised banking facilities ranged from 35.4% to 50.2% (2017: ranged from 37.6% to 50.9%), which were below the thresholds as allowed under the respective banking facility agreements.

At the end of the reporting period, the gearing ratio of Regal REIT was 35.7% (2017: 37.8%), being the gross amount of the outstanding loans aggregating HK\$9,980.0 million (2017: HK\$9,804.0 million), as compared to the total gross assets of Regal REIT of HK\$27,981.8 million (2017: HK\$25,958.3 million). For details of the gross amount of the outstanding loans, please refer to notes 19 and 20 to the financial statements. The gearing ratio is below the maximum 45% permitted under the REIT Code.

31. SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and business	Issued ordinary share capital	Percentage of equity attributable to the Group	Principal activities
Bauhinia Hotels Limited	Hong Kong	HK\$2	100	Hotel ownership
Cityability Limited	Hong Kong	HK\$10,000	100	Hotel ownership
Gala Hotels Limited	Hong Kong	HK\$2	100	Hotel ownership
Regal Asset Holdings Limited	Bermuda/Hong Kong	US\$12,000	100	Investment holding
Regal Riverside Hotel Limited	Hong Kong	HK\$2	100	Hotel ownership
Rich Day Investments Limited	Hong Kong	HK\$1	100	Financing
Ricobem Limited	Hong Kong	HK\$100,000	100	Hotel ownership
Sonnix Limited	Hong Kong	HK\$2	100	Property ownership
R-REIT International Finance Limited	British Virgin Islands	US\$1	100	Financing
Tristan Limited	Hong Kong	HK\$20	100	Hotel ownership
Wise Decade Investments Limited	Hong Kong	HK\$1	100	Hotel ownership
Land Crown International Limited	Hong Kong	HK\$1	100	Hotel ownership

The above table lists the subsidiaries of Regal REIT which, in the opinion of the REIT Manager, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the REIT Manager, result in particulars of excessive length.



To the Unitholders of Regal Real Estate Investment Trust

(A Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries (the "Group") set out on pages 64 to 116, which comprise the consolidated statement of financial position as at 31st December, 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets attributable to unitholders, the consolidated statement of cash flows and the distribution statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial disposition of the Group as at 31st December, 2018, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<i>Valuations of investment properties and property, plant and equipment</i>	
<p>As at 31st December, 2018, the Group's investment properties and property, plant and equipment were valued at approximately HK\$27.0 billion and HK\$0.7 billion, respectively, which made up, in aggregate, 99.0% of the Group's total assets. The Group engaged an external valuer to perform the property valuations for the investment properties and property, plant and equipment on a half-yearly basis. The valuation process was inherently subjective and dependent on a number of assumptions and estimates.</p> <p>The Group's accounting policies and disclosures for the valuations of investment properties and property, plant and equipment are set out in notes 2.4, 3, 11, 12 and 29 to the consolidated financial statements.</p>	<p>With the assistance from our internal valuation specialists, we evaluated the valuation methodology used and the underlying assumptions in connection with the valuations of investment properties and property, plant and equipment of the Group as at 31st December, 2018. The valuations were based on, among others, assumptions on capitalisation rates, discount rates, terminal growth rates, occupancy rates, daily room rates, gross operating profits and estimated annual rentals.</p> <p>We evaluated the competence, capabilities and independence of the external valuer commissioned by the Group. We also assessed the adequacy of disclosures of the valuations of investment properties and property, plant and equipment in the consolidated financial statements.</p>



OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The manager of Regal REIT (the “REIT Manager”) is responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE REIT MANAGER FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The REIT Manager is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the REIT Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the REIT Manager is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the REIT Manager either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

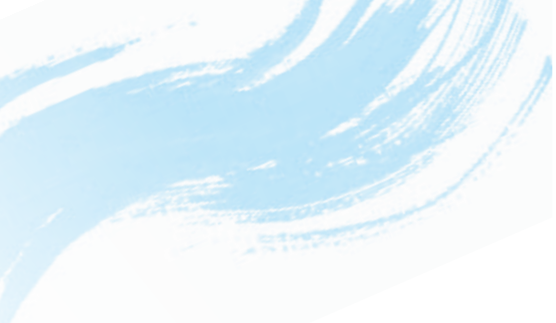
In addition, the REIT Manager is required to ensure that the consolidated financial statements have been properly prepared in accordance with the relevant provisions of the trust deed dated 11th December, 2006, as supplemented by the first supplemental trust deed dated 2nd March, 2007, the second supplemental trust deed dated 15th May, 2008, the third supplemental trust deed dated 8th May, 2009, the fourth supplemental trust deed dated 23rd July, 2010, the fifth supplemental trust deed dated 3rd May, 2011, the sixth supplemental trust deed dated 21st July, 2011 and the seventh supplemental trust deed dated 14th April, 2015 (the “Trust Deed”) and the relevant disclosure provisions of Appendix C of the REIT Code.

The REIT Manager is assisted by the Audit Committee of the REIT Manager in discharging its responsibilities for overseeing the Group’s financial reporting process.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.




In addition, we are required to assess whether the consolidated financial statements of the Group have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the REIT Manager.
- Conclude on the appropriateness of the REIT Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the REIT Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the REIT Manager with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the Audit Committee of the REIT Manager, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON MATTERS UNDER THE RELEVANT PROVISIONS OF THE TRUST DEED AND THE RELEVANT DISCLOSURE PROVISIONS OF APPENDIX C OF THE REIT CODE

In our opinion, the consolidated financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code.

The engagement partner on the audit resulting in this independent auditor's report is Leung Chi Ying.

Ernst & Young

Certified Public Accountants

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

26th March, 2019

PERFORMANCE TABLE

As at 31st December, 2018

	Notes	Year ended 31st December, 2018	Year ended 31st December, 2017	Year ended 31st December, 2016	Year ended 31st December, 2015	Year ended 31st December, 2014
Net assets attributable to Unitholders (HK\$'million)		17,314.5	15,484.7	13,437.9	13,371.2	15,502.6
Net asset value per Unit attributable to Unitholders (HK\$)		5.315	4.754	4.125	4.105	4.759
The highest traded price during the year (HK\$)	1	2.47	2.45	2.2	2.37	2.32
The lowest traded price during the year (HK\$)		2.14	2.05	1.72	1.88	1.92
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		59.74%	56.88%	58.30%	54.20%	59.66%
Distribution yield per Unit	2	6.73%	6.04%	7.48%	7.94%	7.90%

Notes:

1. The highest traded price during all the relevant periods was lower than the net asset value per Unit attributable to Unitholders reported at the end of those periods. Accordingly, no premium on the traded price to net asset value per Unit attributable to Unitholders is presented.
2. Distribution yield per Unit for the year ended 31st December, 2018 is calculated by dividing the total distributions per Unit of HK\$0.150 over the Unit closing price of HK\$2.23 on the last trading day of 2018. Details of the total distributions per Unit is set out in the section "Distribution Statement" on page 69.

TO THE UNITHOLDERS OF REGAL REAL ESTATE INVESTMENT TRUST

(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

We hereby confirm that, in our opinion, the Manager of Regal Real Estate Investment Trust ("Regal REIT") has, in all material respects, managed Regal REIT in accordance with the provisions of the Trust Deed dated 11 December 2006 (as amended by first supplemental deed dated 2 March 2007, second supplemental deed dated 15 May 2008, third supplemental deed dated 8 May 2009, fourth supplemental deed dated 23 July 2010, fifth supplemental deed dated 3 May 2011, sixth supplemental deed dated 21 July 2011 and seventh supplemental deed dated 14 April 2015), for the period from 1 January 2018 to 31 December 2018.

DB Trustees (Hong Kong) Limited

(in its capacity as the trustee of Regal REIT)

Hong Kong, 14 March 2019

VALUATION REPORT



REGAL PORTFOLIO MANAGEMENT LIMITED

(as the "Manager" of Regal REIT)
Unit No. 2001, 20th Floor
68 Yee Wo Street
Causeway Bay
Hong Kong

And

DB TRUSTEES (HONG KONG) LIMITED

(as the "Trustee" of Regal REIT)
Level 52, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

28 February 2019

Dear Sir/Madam,

RE: Valuation of Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, Regal Riverside Hotel, iclub Wan Chai Hotel, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel in Hong Kong (collectively, the "Properties") as at 31 December 2018

We refer to your instruction to value the Properties of Regal REIT as at **31 December 2018** (the "Date of Valuation"), we confirm that we have carried out physical inspections, made relevant investigations and enquiries and obtained such further information as we consider necessary for providing you with our opinion of the market values of the Properties. Details are set out in the attached valuation certificates.

Valuation Basis and Assumptions

Our valuation is prepared in accordance with The HKIS Valuation Standards (2017 Edition) and has also been compliant with the RICS Valuation – Global Standards 2017 and IVSC valuation standards, where applicable and appropriate; and in compliance with the requirements contained in Chapter 6.8 of the Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in August 2014. All valuations will be undertaken by appropriately qualified professionals and the definition of market value and valuation methodologies will be in line with the above standards, unless otherwise specified.


CBRE Limited
Suites 1204-06, 12/F, 3/F & 4/F
Three Exchange Square
8 Connaught Place
Central, Hong Kong

T: 852 2820 2800

F: 852 2810 0830

www.cbre.com.hk

Estate Agent's Licence No: C-004065



Unless otherwise stated, our valuation has been made on the assumption that the Properties can be sold in the open market without the benefit and burden of any deferred terms contracts, leasebacks, joint ventures, or any similar arrangements which would affect their market values although they are subject to the existing management agreements and lease agreements.

No allowance has been made in our valuation for any charges, mortgages or amounts owing neither on the Properties nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Unless otherwise stated, we have valued the Properties on the assumption that they are freely disposable and transferable for the whole unexpired land lease term without the need of any land premium payment.

Basis of Valuation

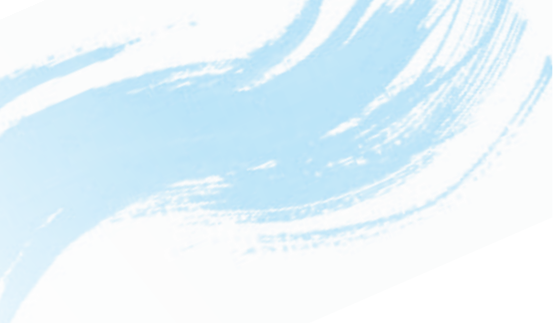
Our valuation is made on the basis of Market Value, which is defined under the HKIS Valuation Standards as “the estimated amount for which an asset or liability should exchange on the Date of Valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.” Market Value is understood as the value of an asset or liability estimated without regard to any cost of sale or purchase (or transaction), or deduction for any associated or potential taxes.

Valuation Approach

In this valuation, we have principally adopted the Income Approach – Discounted Cash Flow Analysis (“DCF”) and counter-checked by the Direct Comparison Approach.

DCF is defined in the HKIS Valuation Standards as a methodology that the forecasted cash flow is discounted back to the valuation date, resulting in a present value of the asset. It will also include a terminal value which represents the value of the asset at the end of the explicit projection period. DCF allows an investor or owner to make an assessment of the longer term return that is likely to be derived from a property with a combination of both income and capital growth over an assumed investment horizon.

The assets have been valued through cash-flow calculations based on estimations of the Properties’ abilities to generate future annual net operating incomes, and we have carried out analysis over a ten-year investment horizon. We assumed that the Properties are sold at the commencement of the eleventh year. Thus, the eleventh-year net incomes have been capitalised by estimated terminal capitalisation rates to arrive at the terminal values, which are then discounted by the applicable discount rates. Therefore, both the ten year income streams and the terminal values are discounted by the estimated discount rates as at the Date of Valuation to arrive at the present values.



According to the HKIS Valuation Standards, the projected cash flow should capture the amount and timing of all future cash inflows and outflows associated with the subject asset from the perspective appropriate to the basis of value. For hotel properties in Hong Kong, the annual net operating incomes are normally calculated as the gross departmental revenues less all operating expenses and charges. The gross revenues of hotels will generally comprise rooms revenues and food & beverage revenues, and the typical expenses will include but not limited to staff costs, sales & marketing expenses, energy costs, management fees, etc. We have been provided by the Manager with the previous actual trading and budget forecast of the Properties and thus our cashflow projections to be adopted in the DCF analysis are the estimates based on the Manager's budget forecast and our understanding of potential trading under such economic, business and market conditions in which the Properties are positioned.

Unless otherwise stated, due consideration has been given to the expectation of the renewal of the Government leases upon expiry. The analysis is predicted on the assumption of a cash purchase. No allowance for interest and other funding costs have been made.

The analysis from DCF has then been cross-checked by the Direct Comparison Approach, which involves the analysis of prices realized in actual market transactions. In selecting appropriate sales evidences, we have taken into consideration of the market transaction records of similar properties. We have allowed adjustments based on the dissimilarities between the Properties and the comparables, and adjustments are made to reflect the differences in various aspects including time, location, size, facilities, grading and quality, building age as well as other relevant factors which are considered to affect the value of the Properties.

Title Investigations

We have not been provided with extracts from title documents relating to the Properties but have conducted searches at the Land Registry. We have not, however, been provided with the original documents to verify the ownership, nor to ascertain the existence of any amendments which may not appear on our searches. We do not accept any liability for any interpretation which we have placed on such information, which is more properly in the sphere of your legal advisers.

Source of Information

We have relied on a considerable extent of information given by the Manager, and have accepted the advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupancy status, lettings, building plans, site and floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Manager, and have been advised by the Manager that no material facts have been omitted from the information provided.

Site Measurement

No on-site measurement has been taken. Dimension, measurement and area included in the valuation certificates are based on the information provided by the Manager, and we have assumed that the areas shown on the documents are correct.

Inspection

We have carried out external and internal inspections of the Properties. Our inspections of the Properties were carried out by Mr. Edmond Wong (FRICS and MHKIS) and Mr. Kaiser Lo on 23rd and 27th November 2018. During the course of the inspections, we have not noticed any severe defects. However, we have not carried out any structural survey or any tests on the building services, and we are not able to report whether they are free from rot, infestation or any other structural defects. In this valuation, we assume the Properties are maintained in a reasonable condition.

Other Assumptions

In addition, we have made the following assumptions in our valuation:

- All information on the Properties provided by the Manager is correct.
- The Properties have been constructed, occupied and used in full compliance with, and without contravention of, all the ordinances and regulations except otherwise stated.
- We have been provided with the tenancy and licence schedules by the Manager. We have not examined the lease documents for each specific tenancy and our valuation is based on the assumption that all leases are executed and are in accordance with the provisions stated in the schedules provided to us. We also assume that all the tenancies and licences are valid, binding and enforceable.
- Unless otherwise stated, we have not carried out any valuation on a redevelopment basis, nor the study of possible alternative options.
- Unless otherwise stated, we have assumed that the Government Leases shall be renewed upon expiry on normal terms.

Unless otherwise stated, all monetary amounts are stated in Hong Kong Dollar (“HK\$”).

Valuer’s Interest

We hereby certify that the valuer(s) is/are suitably qualified and authorised to practise as a valuer; does not have a pecuniary interest, financial or otherwise, that could conflict with the proper valuation of the Properties.

The following staff have provided professional assistance to the person signing this report:

Ms. Jennifer Ip and Mr. Kaiser Lo

We hereby confirm that we have no present or prospective interest in the Properties and are not a related corporation of nor have a relationship with the Manager, the Trustee or any other party or parties with whom Regal REIT is contracting; and we are authorized to practice as valuer and have the necessary expertise and experience in valuing similar types of properties.

Our valuation has been prepared on a fair and unbiased basis.



Confidentiality and Disclaimers

This valuation report will be for the sole use of the persons directly provided with it by CBRE. Use by, or reliance upon this valuation report by anyone other than the Manager and the Trustee of Regal REIT is not authorised by CBRE and CBRE will not be liable for any loss arising from such unauthorised use or reliance. No other party, other than the Manager or the Trustee, may rely upon this valuation report.

The liability of CBRE Limited and its directors and employees is limited to the addressee of this report only. No accountability, obligation or liability to any third parties is accepted.

We enclose herewith a Summary of Values and our valuation certificates followed by Assumptions, Disclaimers, Limitations & Qualifications.

Yours faithfully,
For and on behalf of
CBRE Limited

Edmond Wong FRICS MHKIS
Valuer
Director
Valuation & Advisory Services

Robert McIntosh FRICS FAPI
Reviewer
RICS Registered Valuer
Executive Director
CBRE Hotels, Asia Pacific

SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 31 December 2018 HK\$
1	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	3,250,000,000
2	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	4,724,000,000
3	Regal Kowloon Hotel 71 Mody Road Tsim Sha Tsui Kowloon Hong Kong	6,381,000,000
4	Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on Ground Floor including Cockloft of Shops 5-7 and the whole of 1/F Po Shing Court 21-25 Shek Ku Lung Road 40-42 Sa Po Road and 15-29 Carpenter Road Kowloon City Kowloon Hong Kong	2,137,000,000
5	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin New Territories Hong Kong	5,431,000,000

No.	Property	Market Value in existing state as at 31 December 2018 HK\$
6	iclub Wan Chai Hotel Shops A, B and C on G/F, Flat Roof on 3/F Whole of 5-12/F, 15-23/F and 25-29/F Eastern and Western Elevations of External Walls Architectural Feature at Roof Top and Upper Roof 211 Johnston Road Wan Chai Hong Kong	930,000,000
7	iclub Sheung Wan Hotel 138 Bonham Strand Sheung Wan Hong Kong	1,660,000,000
8	iclub Fortress Hill Hotel 18 Merlin Street North Point Hong Kong	1,700,000,000
9	iclub Ma Tau Wai Hotel 8 Ha Heung Road Kowloon Hong Kong	1,490,000,000
	Total:	27,703,000,000

PROPERTY 1

REGAL AIRPORT HOTEL

9 Cheong Tat Road
Hong Kong International Airport
Chek Lap Kok
New Territories, Hong Kong

Portion of The Remaining Portion of Chek Lap Kok Lot No. 1 and the Extension thereto

PROPERTY DESCRIPTION

Regal Airport Hotel ("RAH") is a 14-storey (including a basement floor) High Tariff A hotel completed in 1999. There are currently 1,171 rooms after the Asset Enhancement Programme in 2007.

RAH is located next to the Hong Kong International Airport ("HKIA") and is directly connected to the passenger terminal by an air-conditioned footbridge. The AsiaWorld Expo is also in close proximity to the property.

Site Area	:	10,886 sq.m.
Gross Floor Area	:	71,988 sq.m.
Covered Floor Area	:	Approx. 83,400 sq.m.
Town Planning Zoning	:	"Commercial" zone under Chek Lap Kok Outline Zoning Plan No. S/I-CLK/14 dated 29 April 2016.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	173	Spa Deluxe Room	14
Superior Room	324	Spa Cabana Room	5
Deluxe Room	45	Spa Suite	2
Prime Deluxe Room	105	Honeymoon Suite	1
Premier Room	66	Royal Suite	11
Cabana Room	17	Spa Duplex Suite	2
Family Triple Room	23	Deluxe Suite	15
Family Quadruple Room	199	Apartment Suite	9
Executive Club Floor Superior Room	68	Presidential Suite	1
Executive Club Floor Deluxe Room	91		
		Total	1,171

Note: The room sizes range from 21 sq.m. to 318 sq.m.

Food and Beverage Outlets

Floor	Name of Outlet	Type of Facility	Seating Capacity (approx.)	
			Area (sq.m.)	No. of normal dining seating
G/F	Café Aficionado	International Buffet and Asian Specialities	869	384
G/F	The China Coast Bar + Grill	American Steakhouse	644	230
G/F	Dragon Inn	Huai Yang & Shanghainese Cuisine	359	182
G/F	Airport Izakaya	Japanese Cuisine	236	100
1/F	Rouge	Cantonese and Sichuan Cuisine	504	260
2/F	Regala Café & Dessert Bar	Desserts and Drinks	326	94

Meeting and Banquet Facilities

Floor	Name of Function Room	Type of Facility	No. of Rooms	Seating Capacity (approx.)		
				Area (sq.m.)	No. of seating in Theatre/ Boardroom Style	Banquet Style
B/F	Pre-function Area and Meeting Rooms	Conference and Exhibition	13	1,645	490	372
1/F	Ballroom	Banquet/Convention	1	960	960	960
1/F	Multi-purpose Function Rooms	Meeting and Conference	7	490	403	264
2/F	Meeting Rooms	Meeting and Conference	3	94	38	N/A
9/F	Meeting Room	Meeting and Conference	1	60	40	N/A

Other Facilities

Other facilities include an outdoor and an indoor swimming pool, a health club with gymnasium, massage and spa facilities, a children's playroom, a business centre and some retail spaces.

OWNERSHIP AND TENURE

Registered Owner	:	Airport Authority ¹
Lease Term	:	Chek Lap Kok Lot No. 1 is held by the Government under New Grant No. IS7996 for a term commencing from 1 December 1995 and expiring on 30 June 2047.

¹ The Hotel is sub-leased in favour of Bauhinia Hotels Limited for a term commencing from 31 December 2003 until the date occurring 25 years thereafter.

Major Registered Encumbrances

- Sub-lease of Hotel in favour of Bauhinia Hotels Limited dated 12 August 2004, registered vide Memorial No. IS342341. The term of the Sub-lease commenced from 31 December 2003 until the date occurring 25 years thereafter.
- Supplemental Lease (To Sub-lease of Hotel Memorial No. IS342341) in favour of Bauhinia Hotels Limited dated 8 November 2006, registered vide Memorial No. 06112400700018.
- Lease Agreement (No. 1 for Regal Airport Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910065. (Remarks: By Bauhinia Hotels Limited from 30 March 2007 to 31 December 2015)
- First Supplemental Agreement amending Lease Agreement No. 1 for Regal Airport Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510099. (Remarks: By Bauhinia Hotels Limited)
- G.N. 2761 dated 26 April 2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590037. (Remarks: with plans No. ISM1741A (re portion), re: PWP item No. 844th Hong Kong-Zhuhai-Macao Bridge Hong Kong Link Road)
- G.N. 2762 dated 26 April 2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590012. (Remarks: with plans No. ISM1731A-1 (re portion), re: PWP Item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong boundary crossing facilities)
- G.N. 2763 dated 26 April 2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590049. (Remarks: with plans nos. ISM1742A and ISM1757A for creation of easements and other permanent rights and rights of temporary occupation of land. Re: PWP item No. 844th Hong Kong-Zhuhai-Macao Bridge Hong Kong Link Road)
- G.N. 2764 dated 26 April 2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590024. (Remarks: with plan Nos. ISM1734B-I and ISM1732B-I (re portion) for creation of easements and other permanent rights and rights of temporary occupation of land. Re: PWP item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong boundary crossing facilities)
- G.N. 6022 dated 10 October 2013 under Roads (works, use and compensation) Ordinance (Chapter 370) with plan dated 10 October 2013, registered vide Memorial No. 13102500820010. (Remarks: re portion, re: PWP Item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities Creation of Rights of Temporary Occupation of Land)

- Consent Letter dated 19 November 2013, registered vide Memorial No. 13120201030063. (Remarks: from District Lands Officer, Islands)
- Second Supplemental Deed amending Lease Agreement No. 1 for Regal Airport Hotel in favour of Favour Link International Limited dated 12 March 2015, registered vide Memorial No. 15042302380228. (Remarks: By Bauhinia Hotels Limited)
- Consent Letter dated 6 November 2015, registered vide Memorial No. 15112001200210. (Remarks: from District Lands Officer, Islands)
- Mortgage and Assignment of Rights in favour of Hang Seng Bank Limited dated 29 September 2016, registered vide Memorial No. 16102702370333.
- Consent Letter dated 13 February 2017, registered vide Memorial No. 17022300740027. (Remarks: from District Lands Officer, Islands)

HOTEL OPERATION

Hotel Performance in 2018

Occupancy Rate	:	89%
Average Room Rate	:	HK\$1,279

Lease Agreement

Lessor	:	Bauhinia Hotels Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from 30 March 2007 (the "Listing Date") and expiring on 31 December 2020 (both days inclusive).
Rental	:	From 2011 to 2020, the Market Rent ² to be determined (the "Market Rental Package Determination") in accordance with the Lease Agreement, subject to a Floor Rent of HK\$175,000,000 per annum out of a total Floor Rent of HK\$400,000,000 for all five Initial Hotels ³ .

According to the 2018 and 2019 Market Rental Package Determinations, Base Rent for RAH for the fiscal years of 2018 and 2019 are both HK\$252,000,000; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

² According to the Lease Agreement, the Market Rent to be determined includes the Base Rent, Variable Rent and the Lessee's contribution to the FF&E Reserve.

³ Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	Twenty (20) years from the Listing Date
Base Fee	:	One percent (1%) of Gross Revenue ⁴ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term).
Incentive Fee	:	One percent (1%) of the excess of the Adjusted GOP ⁵ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term).

RETAIL TENANCY/LICENCE SCHEDULES

Retail⁶

Retail Area (Lettable)	:	Approx. 39,276 sq.ft. (3,649 sq.m.)
Occupied Area (Lettable)	:	Approx. 33,021 sq.ft. (3,068 sq.m.)
Vacant Area (Lettable)	:	Approx. 6,255 sq.ft. (581 sq.m.)
Occupancy Rate	:	84.1%
Monthly Base Rent	:	HK\$1,949,552 (All tenancies except two are exclusive of rates, management fees and air-conditioning charges; the remaining tenancies are inclusive of management fees and air-conditioning charges, but exclusive of rates.)

Tenancy Expiry Profile

Year	Lettable Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
Monthly	4,662	14.1%	1	6.3%	126,049	6.5%
Year Ending 2019	4,452	13.5%	1	6.3%	171,120	8.8%
Year Ending 2020	8,049	24.4%	4	25.0%	449,406	23.1%
Year Ending 2021	15,858	48.0%	10	62.5%	1,202,977	61.7%
Total	33,021	100% (rounded)	16	100% (rounded)	1,949,552	100% (rounded)

⁴ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁵ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

⁶ The areas quoted exclude spaces which are used by RAH.

Tenancy Duration Profile

Tenancy Duration	Lettable Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
Monthly	4,662	14.1%	1	6.3%	126,049	6.5%
More than 1 year and up to 2 years	1,479	4.5%	2	12.5%	70,866	3.6%
More than 2 years and up to 3 years	21,507	65.1%	12	75.0%	1,473,345	75.6%
More than 3 years and up to 4 years	5,373	16.3%	1	6.3%	279,292	14.3%
Total	33,021	100%	16	100%	1,949,552	100%
		(rounded)		(rounded)		(rounded)

Latest Expiry Date : 31 October 2021

Range of Rent-free Period : 0 to 4.5 months

Option to Renew : One of the tenancies have an option to renew for a further term of two years and eight of the tenancies have an option to renew for a further term of three years.

Summary of Terms : The Landlord⁷ is responsible for payment of Government Rent and the structural and external repairs while the Tenant is responsible for the internal repairs of the Property.

Licences for Mobile Phone Base Stations, Antennae, Signage Spaces and Poster Stand(s)

Number of Licences	:	6
Monthly Licence Fee	:	HK\$197,599 per month
Latest Expiry Date	:	14 February 2019

ESTIMATED NET PROPERTY YIELD⁸

8.8%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2018

HK\$3,250,000,000

⁷ All tenancy agreements/licences are entered into by Favour Link International Ltd as Landlord.

⁸ The Estimated Net Property Yield of RAH is derived from the rent receivable in 2018 divided by the Market Value.

PROPERTY 2

REGAL HONGKONG HOTEL

88 Yee Wo Street
Causeway Bay, Hong Kong

Sections C, D, E, F, G, H, I, J, L, M and the Remaining Portion of Inland Lot No. 1408

PROPERTY DESCRIPTION

Regal Hongkong Hotel ("RHK") is a 38-storey (including 4 basement floors) High Tariff A hotel completed in 1993. It has a total of 481 rooms and suites. The hotel also includes some spaces on the Ground Floor to 3rd Floor of 68 Yee Wo Street as ancillary hotel space for the hotel⁹.

RHK is located in Causeway Bay, one of the major shopping areas in Hong Kong where the immediate developments are predominately for office and retail uses.

Site Area	:	1,176 sq.m.
Gross Floor Area	:	25,090 sq.m. ¹⁰
Covered Floor Area	:	Approx. 32,000 sq.m. ¹¹
Town Planning Zoning	:	"Commercial" zone under Causeway Bay Outline Zoning Plan No. S/H6/16 dated 26 January 2018.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	34	Executive Club Floor Superior Room	12
Superior Room	143	Executive Club Floor Deluxe Room	36
Superior Family	23	Executive Suite	20
Deluxe Room	101	Deluxe Suite	8
Prime Deluxe Room	18	Presidential Suite	1
Premier Room	6	Imperial Suite	1
Family Triple Room	63	Chairman Suite	1
Family Quadruple Room	12	Regal Royale Suite	2
		Total	481

Note: The room sizes range from 22 sq.m. to 154 sq.m.

⁹ The owner of RHK has also rented some spaces on G/F to 3/F of 68 Yee Wo Street. The first tenancy is related to hotel ancillary use of 10,510 sq.ft. (976 sq.m.) lettable area. The current monthly rent is HK\$500,000 with expiration on 1 March 2022. The second tenancy is related to Shops No. 301 to 304 on the Third Floor with a lettable area of 3,437 sq.ft. (319 sq.m.). The term is two years commencing from 16 January 2017 with a monthly rent of HK\$127,374.

¹⁰ The area excludes the rented space.

¹¹ The area excludes the rented space.

Food and Beverage Outlets

Floor	Name of Outlet	Type of Facility	Seating Capacity (approx.)	
			Area (sq.m.)	No. of normal dining seating
G/F	Tiffany Lounge	Snacks and Drinks	137	50
1/F	Café Rivoli	International Cuisine & Buffet	376	200
3/F	Regal Palace	Traditional Chinese Cuisine	752	500
31/F	Alto 88	Italian Cuisine	214	120

Meeting and Banquet Facilities

Floor	Name of Function Room	Type of Facility	No. of Rooms	Seating Capacity (approx.)		
				Area (sq.m.)	No. of seating in Theatre/ Boardroom Style	Banquet Style
2/B	Multi-purpose Function Rooms	Banquet/Convention	5	343	260	216
1/B	Ballroom	Banquet/Convention	1	239	239	228
1/B	Multi-purpose Function Rooms	Banquet/Convention	3	194	180	132
3/F	Meeting Rooms	Banquet/Convention	6	336	273	228

Other Facilities

Other facilities include a gymnasium and an outdoor swimming pool.

OWNERSHIP AND TENURE

Registered Owner : Cityability Limited

Lease Term : The Inland Lot No. 1408 is held under a Government Lease for a term of 999 years commencing from 25 December 1884.

Major Registered Encumbrances

- Deed of Restrictive Covenant dated 13 May 1992, registered vide Memorial No. UB5287070.
- Deed of Covenant and Grant of Right of Way and Easements and Management Agreement dated 13 May 1992, registered vide Memorial No. UB5287071.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. UB8033163.
- Lease Agreement (No. 2 for Regal Hongkong Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910073.

- First Supplemental Agreement amending Lease Agreement No. 2 for Regal Hongkong Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510109.
- Second Supplemental Deed amending Lease Agreement No. 2 for Regal Hongkong Hotel in favour of Favour Link International Limited dated 12 March 2015, registered vide Memorial No. 15042302380234.
- Cityability Debenture in favour of Hang Seng Bank Limited dated 29 September 2016, registered vide Memorial No. 16102702370323.

HOTEL OPERATION

Hotel Performance in 2018

Occupancy Rate	:	91%
Average Room Rate	:	HK\$1,360

Lease Agreement

Lessor	:	Cityability Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Listing Date and expiring on 31 December 2020 (both days inclusive).
Rental	:	From 2011 to 2020, the Market Rent ¹² to be determined (the "Market Rental Package Determination") in accordance with the Lease Agreement, subject to a Floor Rent of HK\$60,000,000 per annum out of a total Floor Rent of HK\$400,000,000 for all five Initial Hotels ¹³ .

According to the 2018 and 2019 Market Rental Package Determinations, Base Rent for RHK for the fiscal years of 2018 and 2019 are HK\$127,000,000 and HK\$132,000,000 respectively, and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

¹² According to the Lease Agreement, the Market Rent to be determined includes the Base Rent, Variable Rent and the Lessee's contribution to the FF&E Reserve.

¹³ Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	Twenty (20) years from the Listing Date
Base Fee	:	One percent (1%) of Gross Revenue ¹⁴ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term).
Incentive Fee	:	One percent (1%) of the excess of the Adjusted GOP ¹⁵ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term).

LICENCE SCHEDULE

Licences for Installation of Mobile Radio Equipment and Integrated Radio System (“IRS”)

Number of Licences	:	2
Monthly Licence Fee	:	HK\$176,400 per month
Latest Expiry Date	:	15 August 2019

ESTIMATED NET PROPERTY YIELD¹⁶

2.7%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2018

HK\$4,724,000,000

¹⁴ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

¹⁵ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

¹⁶ The Estimated Net Property Yield of RHK is derived from the rent receivable in 2018 divided by the Market Value.

PROPERTY 3

REGAL KOWLOON HOTEL

71 Mody Road
Tsim Sha Tsui, Kowloon, Hong Kong

Kowloon Inland Lot No. 10474

PROPERTY DESCRIPTION

Regal Kowloon Hotel ("RKH") is a 20-storey (including 4 basement floors) High Tariff A hotel completed in 1982. Most of the rooms enjoy the open view of Centenary Garden. There are retail shops and restaurants located on the Ground to 2nd Floor and 1st Basement to 3rd Basement.

RKH is located at Tsim Sha Tsui East, which is a renowned tourist area where developments in locality consist of hotels, commercial and office buildings.

Site Area	:	2,560 sq.m.
Gross Floor Area	:	31,746 sq.m.
Covered Floor Area	:	Approx. 43,500 sq.m.
Town Planning Zoning	:	"Commercial" zone under Tsim Sha Tsui Outline Zoning Plan No. S/K1/28 dated 3 December 2013.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	41	Executive Club Floor Deluxe Room	147
Superior Room	39	Executive Club Floor Premier Room	29
Deluxe Room	27	Executive Suite	12
Prime Deluxe Room	36	Royal Suite	10
Premier Room	144	Deluxe Suite	16
Executive Club Floor Superior Room	98	Presidential Suite	1
		Total	600

Note: The room sizes range from 19 sq.m. to 140 sq.m.

Food and Beverage Outlets

Floor	Name of Outlet	Type of Facility	Seating Capacity (approx.)	
			Area (sq.m.)	No. of normal dining seating
1/B	Café Allegro	International Seafood Buffets and Vietnamese à la carte Delights	350	186
G/F	V Bar & Lounge ¹⁷	Snacks and Cocktails	89	56
1/F	Mezzo	American Italian	199	90
2/F	Regal Court	Chinese Cuisine	673	266

Meeting and Banquet Facilities

Floor	Name of Function Room	Type of Facility	No. of Rooms	Seating Capacity (approx.)		
				Area (sq.m.)	No. of seating in Theatre/ Boardroom Style	Banquet Style
2/F	Multi-purpose Function Rooms	Banquet/Convention	6	331	260	156
3/F	Ballroom	Banquet/Convention	1	353	353	360
3/F	Multi-purpose Function Rooms	Banquet/Convention	6	665	360	288

Other Facilities

Other facilities include a fitness room and a shopping arcade.

OWNERSHIP AND TENURE

Registered Owner : Ricobem Limited

Lease Term : The Kowloon Inland Lot No. 10474 is held by the Government under Conditions of Sale No. 10983 for a term of 75 years commencing from 28 December 1976 and renewable for a further term of 75 years.

Major Registered Encumbrances

- Letter of Compliance from District Lands Office Kowloon West Kowloon Government Offices to Paliburg Project Management Limited dated 6 July 1982, registered vide Memorial No. UB3990407.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. UB8033162.
- Lease Agreement (No. 3 for Regal Kowloon Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910082. (Remarks: For the period commencing from 30 March 2007 to 31 December 2015)

¹⁷ Additional outside seating area is provided on the Ground Floor.

- First Supplemental Agreement amending Lease Agreement No. 3 for Regal Kowloon Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510128.
- Second Supplemental Deed amending Lease Agreement No. 3 for Regal Kowloon Hotel in favour of Favour Link International Limited dated 12 March 2015, registered vide Memorial No. 15042302380241.
- Debenture and Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited, dated 8 March 2018, registered vide Memorial No. 18032802410264.

HOTEL OPERATION

Hotel Performance in 2018

Occupancy Rate	:	93%
Average Room Rate	:	HK\$1,286

Lease Agreement

Lessor	:	Ricobem Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Listing Date and expiring on 31 December 2020 (both days inclusive).
Rental	:	From 2011 to 2020, the Market Rent ¹⁸ to be determined (the "Market Rental Package Determination") in accordance with the Lease Agreement, subject to a Floor Rent of HK\$65,000,000 per annum out of a total Floor Rent of HK\$400,000,000 for all five Initial Hotels ¹⁹ .

According to the 2018 and 2019 Market Rental Package Determinations, Base Rent for RKH for the fiscal years of 2018 and 2019 are HK\$155,000,000 and HK\$165,000,000 respectively, and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

¹⁸ According to the Lease Agreement, the Market Rent to be determined includes the Base Rent, Variable Rent and the Lessee's contribution to the FF&E Reserve.

¹⁹ Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	Twenty (20) years from the Listing Date
Base Fee	:	One percent (1%) of Gross Revenue ²⁰ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term).
Incentive Fee	:	One percent (1%) of the excess of the Adjusted GOP ²¹ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term).

RETAIL TENANCY/LICENCE SCHEDULES

Retail²²

Retail Area (Lettable)	:	Approx. 43,147 sq.ft. (4,008 sq.m.)
Occupied Area (Lettable)	:	Approx. 40,142 sq.ft. (3,729 sq.m.)
Vacant Area (Lettable)	:	3,005 sq.ft. (279 sq.m.)
Occupancy Rate	:	93.0%
Monthly Base Rent	:	HK\$1,875,001 (All tenancies except six are exclusive of rates, management fees and air-conditioning charges; the remaining tenancies are inclusive of management fees and air-conditioning charges, but exclusive of rates.)

Tenancy Expiry Profile

Year	Lettable Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
Monthly	1,362	3.4%	3	12.0%	27,380	1.5%
Year Ending 2019	13,215	32.9%	6	24.0%	611,730	32.6%
Year Ending 2020	21,628	53.9%	11	44.0%	989,202	52.8%
Year Ending 2021	3,937	9.8%	5	20.0%	246,689	13.2%
Total	40,142	100%	25	100%	1,875,001	100%
		(rounded)		(rounded)		(rounded)

²⁰ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

²¹ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

²² The areas quoted exclude spaces which are used by RKH.

Tenancy Duration Profile

Tenancy Duration	Lettable Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
Monthly	1,362	3.4%	3	12.0%	27,380	1.5%
More than 1 year and up to 2 years	9,639	24.0%	9	36.0%	432,689	23.1%
More than 2 years and up to 3 years	15,902	39.6%	9	36.0%	830,243	44.3%
More than 3 years and up to 4 years	13,239	33.0%	4	16.0%	584,689	31.2%
Total	40,142	100%	25	100%	1,875,001	100%
		(rounded)		(rounded)		(rounded)

Latest Expiry Date : 2 December 2021

Range of Rent-free Period : 0 to 6 months

Option to Renew : One of the tenancies have an option to renew for a further term of two years at market rent.

Summary of Terms : The Landlord²³ is responsible for payment of Government Rent and the structural and external repairs while the Tenant is responsible for the internal repairs of the Property.

Licences for Light-boxes, Showcase, Mobile Phone Base Stations, Antennae, etc.

Number of Licences	:	8
Monthly Licence Fee	:	HK\$150,142 per month
Latest Expiry Date	:	3 January 2020

ESTIMATED NET PROPERTY YIELD²⁴

2.7%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2018

HK\$6,381,000,000

²³ All tenancy agreements/licences are entered into by Favour Link International Ltd as Landlord.

²⁴ The Estimated Net Property Yield of RKH is derived from the rent receivable in 2018 divided by the Market Value.

PROPERTY 4

REGAL ORIENTAL HOTEL

**30-38 Sa Po Road and
Shops 3-11 on G/F including Cockloft of Shops 5-7 and the Whole of 1/F Floor
Po Sing Court, 21-25 Shek Ku Lung Road, 40-42 Sa Po Road and 15-29 Carpenter Road
Kowloon City, Kowloon, Hong Kong**

New Kowloon Inland Lot No. 5754 and
41/180th undivided shares of and in New Kowloon Inland Lot No. 4917

PROPERTY DESCRIPTION

Regal Oriental Hotel ("ROH") is a 17-storey (including 2 basement floors) High Tariff B hotel completed in 1982. The hotel currently comprises 494 guestrooms and suites after the conversion projects in 2013.

ROH also includes 9 shop units on the Ground Floor (with 3 units including cocklofts), and the 1st floor in an adjacent 14-storey building, namely Po Sing Court, completed in 1967 ("Po Sing Court").

ROH is located at Kowloon City and close to the former Hong Kong International Airport at Kai Tak Area, which is transforming into a complex development district with housing, sports, business and tourism uses.

Site Area	:	New Kowloon Inland Lot No. 5754 (Regal Oriental Hotel) – 1,797 sq.m. New Kowloon Inland Lot No. 4917 (Po Sing Court) – 741 sq.m.
Gross Floor Area	:	22,601 sq.m.
Covered Floor Area	:	Approx. 27,300 sq.m.
Town Planning Zoning	:	ROH falls within "Commercial" zone and Po Sing Court falls within "Residential (Group A) 2" zone under Ma Tau Kok Outline Zoning Plan No. S/K10/23 dated 9 March 2018.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	55	Executive Club Floor Superior Room	55
Superior Room	114	Executive Club Floor Deluxe Room	45
Deluxe Room	22	Executive Suite	14
Prime Deluxe Room	71	Deluxe Suite	10
Premier Room	23	Presidential Suite	1
Family Triple Room	52		
Family Quadruple Room	32		
		Total	494

Note: The room sizes range from 12 sq.m. to 105 sq.m.

Food and Beverage Outlets

Floor	Name of Outlet	Type of Facility	Seating Capacity (approx.)	
			Area (sq.m.)	No. of normal dining seating
1/B	Café Neo	International Cuisine & Buffet	536	298
G/F	The China Coast Pub + Restaurant ²⁵	Pub & Restaurant	155	72
G/F	Avanti Pizzeria	Italian Cuisine	185	90
G/F	Regal Patisserie	Cake Shop	29	20
G/F	Moon River	Local Authentic Restaurant	55	50
2/F	Regal Terrace	Cantonese Cuisine	427	300

Meeting and Banquet Facilities

Floor	Name of Function Room	Type of Facility	No. of Rooms	Seating Capacity (approx.)		
				Area (sq.m.)	No. of seating in Theatre/Boardroom Style	Banquet Style
1/F	Ballroom	Banquet/Convention	1	345	250	300
1/F	Multi-purpose Function Rooms	Banquet/Convention	7	302	294	204
3/F	Meeting Room in Club Lounge	Meeting and Conference	1	15	8	N/A

Other Facilities

Other facilities include a fitness room and some retail spaces.

OWNERSHIP AND TENURE

Registered Owner	:	Gala Hotels Limited
Lease Term	:	<p>New Kowloon Inland Lot No. 5754 is held by the Government under Conditions of Sale No. 11240 for a term of 99 years less the last three days commencing from 1 July 1898 and has been statutorily extended to 30 June 2047.</p> <p>New Kowloon Inland Lot No. 4917 is held by the Government under Conditions of Sale No. 8785 for a term of 99 years less the last three days commencing from 1 July 1898 and has been statutorily extended to 30 June 2047.</p>

²⁵ Additional outdoor seating areas are provided on the Ground Floor adjacent to the China Coast Pub + Restaurant.

Major Registered Encumbrances

New Kowloon Inland Lot No. 5754 (Regal Oriental Hotel)

- Deed of Grant of Easement with Plan dated 23 June 1981, registered vide Memorial No. UB2111189.
- Modification Letter dated 26 August 1981, registered vide Memorial No. UB2144106.
- Letter of Compliance from District Lands Office Kowloon West to Paliburg Project Management Limited dated 27 July 1982, registered vide Memorial No. UB3990406.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. UB8033164.
- Lease Agreement (No. 4 for Regal Oriental Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910095. (Remarks: For the period commencing from 30 March 2007 to 31 December 2015)
- First Supplemental Agreement amending Lease Agreement No. 4 for Regal Oriental Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510111.
- Second Supplemental Deed amending Lease Agreement No. 4 for Regal Oriental Hotel in favour of Favour Link International Limited dated 12 March 2015, registered vide Memorial No. 15042302380254.
- Gala Debenture in favour of Hang Seng Bank Limited as Agent and Security Trustee for the Secured Parties dated 29 September 2016, registered vide Memorial No. 16102702370302.

New Kowloon Inland Lot No. 4917 (Shops 3-11 including Cocklofts of Shops 5, 6, 7 on Ground Floor and Whole of the First Floor of Po Sing Court)

- Management Agreement in favour of The Hong Kong Building and Loan Agency Limited (Agency) and National Investment Company Limited (Manager) dated 28 November 1967, registered vide Memorial No. UB604982.
- Deed of Mutual Covenant dated 12 December 1967, registered vide Memorial No. UB607737.
- Lease Agreement (No. 4 for Regal Oriental Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910095. (Remarks: For the period commencing from 30 March 2007 to 31 December 2015)
- First Supplemental Agreement amending Lease Agreement No. 4 for Regal Oriental Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510111.
- Second Supplemental Deed amending Lease Agreement No. 4 for Regal Oriental Hotel in favour of Favour Link International Limited dated 12 March 2015, registered vide Memorial No. 15042302380254.
- Gala Debenture in favour of Hang Seng Bank Limited as Agent and Security Trustee for the Secured Parties dated 29 September 2016, registered vide Memorial No. 16102702370302.
- Order No. "UBCSN/05-29/0001/12" under S.24(1) of the Buildings Ordinance with plans dated 14 December 2016, registered vide Memorial No. 17041302060283. (Remarks: By the Building Authority Re: Common Part(s) only)

HOTEL OPERATION

Hotel Performance in 2018

Occupancy Rate	:	87%
Average Room Rate	:	HK\$792

Lease Agreement

Lessor	:	Gala Hotels Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Listing Date and expiring on 31 December 2020 (both days inclusive).
Rental	:	From 2011 to 2020, the Market Rent ²⁶ to be determined (the "Market Rental Package Determination") in accordance with the Lease Agreement, subject to a Floor Rent of HK\$30,000,000 per annum out of a total Floor Rent of HK\$400,000,000 for all five Initial Hotels ²⁷ .

According to the 2018 and 2019 Market Rental Package Determinations, Base Rent for ROH for the fiscal years of 2018 and 2019 are HK\$62,000,000 and HK\$67,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

Hotel Management Agreement ("HMA")

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	Twenty (20) years from the Listing Date
Base Fee	:	One percent (1%) of Gross Revenue ²⁸ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term).
Incentive Fee	:	One percent (1%) of the excess of the Adjusted GOP ²⁹ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term).

²⁶ According to the Lease Agreement, the Market Rent to be determined includes the Base Rent, Variable Rent and the Lessee's contribution to the FF&E Reserve.

²⁷ Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

²⁸ According to the Hotel Management Agreement, "Gross Revenue" means all revenue derived from the Hotel.

²⁹ According to the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

RETAIL TENANCY/LICENCE SCHEDULES

Retail³⁰

Retail Area (Lettable)	:	ROH - Approx. 12,263 sq.ft. (1,139 sq.m.) Po Sing Court – Approx. 9,337 sq.ft. (867 sq.m.)
Occupied Area (Lettable)	:	0 sq.ft. (0 sq.m.)
Vacant Area (Lettable)	:	ROH – Approx. 12,263 sq.ft. (1,139 sq.m.) Po Sing Court – Approx. 9,337 sq.ft. (867 sq.m.)
Occupancy Rate	:	0%
Monthly Base Rent	:	HK\$0
Latest Expiry Date	:	N/A
Range of Rent-free Period	:	N/A
Option to Renew	:	N/A
Summary of Terms	:	N/A

Licences for Mobile Phone Base Stations and Antennae

Number of Licences	:	3
Monthly Licence Fee	:	HK\$69,365 per month
Latest Expiry Date	:	30 April 2019

ESTIMATED NET PROPERTY YIELD³¹

2.9%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2018

HK\$2,137,000,000

³⁰ The areas quoted exclude spaces which are used by ROH.

³¹ The Estimated Net Property Yield of ROH is derived from the rent receivable in 2018 divided by the Market Value.

PROPERTY 5

REGAL RIVERSIDE HOTEL

34-36 Tai Chung Kiu Road
Shatin, New Territories, Hong Kong

Sha Tin Town Lot No. 160

PROPERTY DESCRIPTION

Regal Riverside Hotel ("RRH") is a 20-storey (including two basement floors) High Tariff B hotel completed in 1986. It has currently 1,138 guestrooms following the last Asset Enhancement Programme in 2009.

RRH is located at Shatin, which is a well established town in the New Territories. The property is located to the south of the Shing Mun River. The developments in locality are mainly residential buildings with retail units and recreational facilities.

Site Area	:	4,956 sq.m.
Gross Floor Area	:	59,668 sq.m.
Covered Floor Area	:	Approx. 69,100 sq.m.
Town Planning Zoning	:	"Commercial" zone under Sha Tin Outline Zoning Plan No. S/ST/34 dated 8 June 2018.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	126	Executive Club Floor Deluxe Room	54
Superior Room	314	Executive Club Floor River View Room	45
Deluxe Room	46	Spa Standard Room	4
Prime Deluxe Room	158	Spa Deluxe Room	3
Premier Room	154	Executive Suite	11
Family Triple Room	26	Royal Suite	1
Family Quadruple Room	69	Deluxe Suite	6
Executive Club Floor Superior Room	120	Presidential Suite	1
		Total	1,138

Note: The room sizes range from 10 sq.m. to 121 sq.m.

Food and Beverage Outlets

Floor	Name of Outlet	Type of Facility	Seating Capacity (approx.)	
			Area (sq.m.)	No. of normal dining seating
G/F	Vi ³²	Thai-Vietnamese Cuisine	145	92
G/F	Moon River	Local Authentic Restaurant	97	72
G/F	Aji Bou Izakaya	Japanese Cuisine	118	76
G/F	Avanti Pizzeria ³³	Italian Cuisine	154	98
G/F	Scene Bar	Live Music Lounge	210	88
G/F	Taiwan Delight	Taiwanese Cuisine	31	20
1/F	Carnival Bar	American Bar	286	120
1/F	Dragon Inn	Huai Yang Cuisine	318	156
2/F	Regal Terrace	Cantonese and selected Provincial Cuisines	726	460
2/F	Regal Court	Chinese Fine Dining Cuisine	205	80
3/F	L'Eau Restaurant	International Poolside BBQ Buffet and Singaporean and Malaysian a la carte menu	409	220

Meeting and Banquet Facilities

Floor	Name of Function Room	Type of Facility	No. of Rooms	Seating Capacity (approx.)		
				Area (sq.m.)	No. of seating in Theatre/ Boardroom Style	Banquet Style
1/F	Ballroom	Banquet/Convention	1	474	450	456
1/F	Multi-purpose Function Rooms	Banquet/Convention	2	108	80	72
1/F	Forum	Meeting and Convention	1	518	500	432
2/F	Multi-purpose Function Rooms	Banquet/Convention	4	319	205	264
3/F	Multi-purpose Function Rooms	Banquet/Convention	4	313	200	300
15/F	Meeting Room in Club Lounge	Meeting and Conference	1	14	8	N/A

Other Facilities

Other facilities include an outdoor swimming pool, a health club with gymnasium and spa/massage facilities and some retail spaces.

³² Outside seating areas are provided on the Ground Floor.

³³ Outside seating areas are provided on the Ground Floor.

OWNERSHIP AND TENURE

Registered Owner	:	Regal Riverside Hotel Limited
Lease Term	:	The Sha Tin Town Lot No. 160 is held by the Government under New Grant No. 11571 for a term of 99 years less the last three days commencing from 1 July 1898 and has been statutorily extended to 30 June 2047.

Major Registered Encumbrances

- Modification Letter dated 1 June 1982, registered vide Memorial No. ST211142.
- Modification Letter dated 28 August 1986, registered vide Memorial No. ST353344.
- Letter of Compliance dated 18 July 1986, registered vide Memorial No. ST430228.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. ST1145794.
- Lease Agreement (No. 5 for Regal Riverside Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910108. (Remarks: For the period commencing from 30 March 2007 to 31 December 2015)
- Modification Letter dated 14 November 2007, registered vide Memorial No. 07111601000553.
- First Supplemental Agreement amending Lease Agreement No. 5 for Regal Riverside Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510131.
- Second Supplemental Deed amending Lease Agreement No. 5 for Regal Riverside Hotel in favour of Favour Link International Limited dated 12 March 2015, registered vide Memorial No. 15042302380265.
- Regal Riverside Debenture in favour of Hang Seng Bank Limited dated 29 September 2016, registered vide Memorial No. 16102702370310.

HOTEL OPERATION

Hotel Performance in 2018

Occupancy Rate	:	86%
Average Room Rate	:	HK\$810

Lease Agreement

Lessor	:	Regal Riverside Hotel Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Listing Date and expiring on 31 December 2020 (both days inclusive).
Rental	:	From 2011 to 2020, the Market Rent ³⁴ to be determined (the "Market Rental Package Determination") in accordance with the Lease Agreement, subject to a Floor Rent of HK\$70,000,000 per annum out of a total Floor Rent of HK\$400,000,000 for all five Initial Hotels ³⁵ .

According to the 2018 and 2019 Market Rental Package Determinations, Base Rent for RRH for the fiscal years of 2018 and 2019 are HK\$155,000,000 and HK\$160,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

Hotel Management Agreement ("HMA")

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	Twenty (20) years from the Listing Date
Base Fee	:	One percent (1%) of Gross Revenue ³⁶ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term).
Incentive Fee	:	One percent (1%) of the excess of the Adjusted GOP ³⁷ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term).

³⁴ According to the Lease Agreement, the Market Rent to be determined includes the Base Rent, Variable Rent and the Lessee's contribution to the FF&E Reserve.

³⁵ Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

³⁶ According to the Hotel Management Agreement, "Gross Revenue" means all revenue derived from the Hotel.

³⁷ According to the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

RETAIL TENANCY/LICENCE SCHEDULES

Retail³⁸

Retail Area (Lettable)	:	Approx. 2,697 sq.ft. (251 sq.m.)
Occupied Area (Lettable)	:	Approx. 1,973 sq.ft. (183 sq.m.)
Vacant Area (Lettable)	:	724 sq.ft. (67.3 sq.m.)
Occupancy Rate	:	73.2%
Monthly Base Rent	:	HK\$89,100 (All are exclusive of rates, management fees and air-conditioning charges.)

Tenancy Expiry Profile

Year	Lettable Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
Year Ending 2021	1,973	100.0%	1	100.0%	89,100	100.0%
Total	1,973	100% (rounded)	1	100% (rounded)	89,100	100% (rounded)

Tenancy Duration Profile

Tenancy Duration	Lettable Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
More than 2 years and up to 3 years	1,973	100.0%	1	100.0%	89,100	100.0%
Total	1,973	100% (rounded)	1	100% (rounded)	89,100	100% (rounded)

Latest Expiry Date	:	14 November 2021
Range of Rent-free Period	:	1 month
Option to Renew	:	N/A
Summary of Terms	:	The Landlord ³⁹ is responsible for payment of Government Rent and the structural and external repairs while the Tenant is responsible for the internal repairs of the Property.

³⁸ The areas quoted exclude spaces which are used by RRH.

³⁹ All tenancy agreements/licences are entered into by Favour Link International Ltd as Landlord.

Licences for Mobile Phone Base Stations and Antennae

Number of Licences	:	4
Monthly Licence Fee	:	HK\$184,800 per month
Latest Expiry Date	:	31 March 2020

ESTIMATED NET PROPERTY YIELD⁴⁰

3.0%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2018

HK\$5,431,000,000

⁴⁰ The Estimated Net Property Yield of RRH is derived from the rent receivable in 2018 divided by the Market Value.

PROPERTY 6

ICLUB WAN CHAI HOTEL

**Shops A, B and C on G/F, Flat Roof on 3/F, whole of 5-12/F, 15-23/F and 25-29/F
Eastern and Western Elevations of External Walls
Architectural Feature at Roof Top and Upper Roof
211 Johnston Road, Wan Chai, Hong Kong**

3,062/3,637th undivided shares of and
in the Sub-section 1 and The Remaining Portion of Section F
and the Sub-section 1 and The Remaining Portion of Section G, of Inland Lot No. 2769

PROPERTY DESCRIPTION

iclub Wan Chai Hotel ("ICWC") comprises Shops A, B and C on the Ground Floor, a flat roof on the 3rd Floor, 22 entire floors (from 5th to 29th Floors, of which 13th, 14th and 24th Floors are omitted), the eastern and western elevations of external walls and architectural feature at roof top and the upper roof of a 26-storey composite building completed in 1997. The remaining portion of the building, comprises a portion of the Ground Floor, whole of the 1st Floor and 2nd Floor, are owned by The Financial Secretary Incorporated (the property agent of the Government of HKSAR) and does not form part of ICWC.

There are currently 99 guestrooms and suites in the property, following the conversion project in 2010, and ICWC is a High Tariff B hotel. There are mainly office buildings in close proximity of the property.

The portion of the Ground Floor comprises the hotel lobby and a shop which is currently leased. The guestrooms are located at the 5th to 26th floors of the building while the mechanical floor is situated on the 3rd Floor. The 27th to 29th Floors have also been leased and are occupied for retail/restaurant/bar/karaoke uses.

Site Area	:	413 sq.m.
Gross Floor Area	:	5,326 sq.m.
Covered Floor Area	:	Approx. 5,530 sq.m.
Town Planning Zoning	:	"Commercial" zone under Wan Chai Outline Zoning Plan No. S/H5/28 dated 4 May 2018.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iSelect	18	iBusiness Deluxe	29
iSelect Premier	12	iSuite Premier	4
iPlus Premier	29	iResidence Premier	7
		Total	99

Note: The room sizes range from 15 sq.m. to 47 sq.m.

Other Facilities

Other facilities include a club lounge and a gymnasium.

OWNERSHIP AND TENURE

Registered Owner	:	Sonnix Limited
Lease Term	:	The Inland Lot No. 2769 is held under a Government Lease for a term of 99 years commencing from 25 May 1929 and renewable for a further term of 99 years.

Major Registered Encumbrances

- Licence in favour of Sonnix Limited by the District Lands Officer/Hong Kong West for and on behalf of the Governor of Hong Kong dated 22 November 1994, registered vide Memorial No. UB6186840.
- Statutory Declaration of Liu Yee Man John dated 17 April 1997, registered vide Memorial No. UB7020522.
- Occupation Permit No. H73/97 dated 20 November 1997, registered vide Memorial No. UB7355437.
- Deed of Mutual Covenant and Management Agreement in favour of Paliburg Estate Management Limited dated 28 November 1997, registered vide Memorial No. UB7376631.
- Supplemental Deed of Mutual Covenant and Management Agreement in favour of Paliburg Estate Management Limited dated 19 October 2009, registered vide Memorial No. 09103001380118.
- Debenture and Mortgage in favour of Hang Seng Bank Limited, dated 24 December 2014, registered vide Memorial No. 15011902330104.

HOTEL OPERATION

Hotel Performance in 2018

Occupancy Rate	:	96%
Average Room Rate	:	HK\$1,103

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	From the Effective Date ⁴¹ , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of 31 December 2020.
Base Fee	:	Two percent (2%) of Gross Revenue ⁴²
Incentive Fee	:	Five percent (5%) of the excess of the GOP ⁴³ over the Base Fee and the Fixed Charges.

⁴¹ According to the Hotel Management Agreement, “Effective Date” means 1 January 2011.

⁴² According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁴³ According to the Hotel Management Agreement, “Gross Operating Profit” means Total Hotel Revenue less Hotel Operating Expenses during the same period.

RETAIL/OFFICE TENANCY SCHEDULE

Retail⁴⁴

Retail Area (gross area)	:	Approx. 1,800 sq.ft. (167 sq.m.)
Occupied Area (gross area)	:	Approx. 1,800 sq.ft. (167 sq.m.)
Vacant Area (gross area)	:	0 sq.ft. (0 sq.m.)
Occupancy Rate	:	100.0%
Monthly Base Rent	:	HK\$140,000 (The base rent is exclusive of rates, government rent, management fees and air-conditioning charges and outgoings.)

Tenancy Expiry Profile

Year	Gross Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
Year Ending 2020	1,800	100.0%	1	100.0%	140,000	100.0%
Total	1,800	100% (rounded)	1	100% (rounded)	140,000	100% (rounded)

Tenancy Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
More than 3 years and up to 4 years	1,800	100.0%	1	100.0%	140,000	100.0%
Total	1,800	100% (rounded)	1	100% (rounded)	140,000	100% (rounded)

Latest Expiry Date	:	19 January 2020
Range of Rent-free Period	:	2 months
Option to Renew	:	The Tenant has an option to renew for a further term of 3 years.
Summary of Terms	:	The Landlord ⁴⁵ and/or another responsible party is/are to be responsible for the structural and external repairs while the Tenant is to be responsible for the internal repairs of the Property. The rates, government rent, taxes are payable by the Tenant.

⁴⁴ The areas quoted exclude spaces which are used by ICWC.

⁴⁵ All tenancy agreements are entered into by Sonnix Limited as Landlord.

Office

Retail Area (gross area)	:	Approx. 8,304 sq.ft. (771 sq.m.)
Occupied Area (gross area)	:	Approx. 8,304 sq.ft. (771 sq.m.)
Vacant Area (gross area)	:	0 sq.ft. (0 sq.m.)
Occupancy Rate	:	100.0%
Monthly Base Rent	:	HK\$446,921 (All tenancies are inclusive of air-conditioning charges and management fees, but exclusive of rates.)

Tenancy Expiry Profile

Year	Gross Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
Year Ending 2020	8,304	100.0%	3	100.0%	446,921	100.0%
Total	8,304	100% (rounded)	3	100% (rounded)	446,921	100% (rounded)

Tenancy Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
More than 3 years and up to 4 years	8,304	100.0%	3	100.0%	446,921	100.0%
Total	8,304	100% (rounded)	3	100% (rounded)	446,921	100% (rounded)

Latest Expiry Date	:	30 April 2020
Range of Rent-free Period	:	1 month
Option to Renew	:	N/A
Summary of Terms	:	The Landlord ⁴⁶ and/or another responsible party is/are to be responsible for the structural and external repairs while the Tenant is to be responsible for the internal repairs of the Property.

ESTIMATED NET PROPERTY YIELD⁴⁷

2.8%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2018

HK\$930,000,000

⁴⁶ All tenancy agreements are entered into by Sonnix Limited as Landlord.

⁴⁷ The Estimated Net Property Yield of ICWC is derived from the net income receivable in 2018 divided by the Market Value.

PROPERTY 7

ICLUB SHEUNG WAN HOTEL

**138 Bonham Strand
Sheung Wan
Hong Kong**

Section C of Marine Lot No. 67A
Section A of Sub-section 1 of Section A of Marine Lot No. 67
The Remaining Portion of Sub-section 1 of Section A of Marine Lot No. 67
Section A of Sub-section 1 of Section B of Marine Lot No. 67
The Remaining Portion of Sub-section 1 of Section B of Marine Lot No. 67
Sub-section 2 of Section B of Marine Lot No. 67
The Remaining Portion of Section B of Marine Lot No. 67
Sub-section 1 of Section C of Marine Lot No. 67
The Remaining Portion of Section C of Marine Lot No. 67
Section G of Inland Lot No. 66 and
The Remaining Portion of Inland Lot No. 66

PROPERTY DESCRIPTION

iclub Sheung Wan Hotel (“ICSW”) is a 34-storey hotel comprising 248 guestrooms and suites completed in 2014. It is located at Sheung Wan, which is a well-established commercial and residential area. The developments in immediate locality are mainly office and residential buildings. The hotel is close to Central, which is the prime CBD in Hong Kong.

Site Area⁴⁸	:	472 sq.m.
Gross Floor Area	:	7,197 sq.m.
Covered Floor Area	:	Approx. 9,600 sq.m.
Town Planning Zoning	:	“Commercial” zone under Draft Sai Ying Pun & Sheung Wan Outline Zoning Plan No. S/H3/32 dated 21 September 2018.

⁴⁸ The site area excludes an area of 32.803 sq.m. to be reserved for lane pattern but includes an area of 24.398 sq.m. to be surrendered for road widening.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iSelect	72	iPlus Premier	28
iPlus	60	iBusiness Premier	14
iBusiness	42	iSuite	18
iSelect Premier	7	iResidence	7
	Total		248

Note: The room sizes range from 13 sq.m. to 54 sq.m.

Other Facilities

Other facilities include a club lounge and a gymnasium.

OWNERSHIP AND TENURE

Registered Owner : Tristan Limited

Lease Term : Marine Lot No. 67 and Marine Lot No. 67A are held under respective Government Leases for a common term of 999 years commencing from 7 February 1852.

Inland Lot No. 66 is held under a Government Lease for a term of 999 years commencing from 26 March 1868.

Major Registered Encumbrances

- Government Notice No. 2710 of 21 July 1995 pursuant to Section 22(1) the Crown Rent and Premium (Apportionment) Ordinance (Cap. 125) dated 21 July 1995, registered vide Memorial No. UB6352712. (For Section G of Inland Lot No. 66 and The Remaining Portion of Inland Lot No. 66 only)
- Government Notice No. 1100 of 18 February 2011 pursuant to Section 22(1) of the Government Rent and Premium (Apportionment) Ordinance (Cap. 125) dated 18 February 2011, registered vide Memorial No.11030101830019. (For Section A of Sub-section 1 of Section A of Marine Lot No. 67, The Remaining Portion of Sub-section 1 of Section A of Marine Lot No. 67, Section A of Sub-section 1 of Section B of Marine Lot No. 67, The Remaining Portion of Sub-section 1 of Section B of Marine Lot No. 67, Sub-section 2 of Section B of Marine Lot No. 67, The Remaining Portion of Section B of Marine Lot No. 67, Sub-section 1 of Section C of Marine Lot No. 67 and The Remaining Portion of Section C of Marine Lot No. 67 only)
- Deed Poll dated 15 August 2011, registered vide Memorial No. 11082501800017. (Section A of Sub-section 1 of Section A of Marine Lot No. 67, The Remaining Portion of Sub-section 1 of Section A of Marine Lot No. 67, Section A of Sub-section 1 of Section B of Marine Lot No. 67, The Remaining Portion of Sub-section 1 of Section B of Marine Lot No. 67, Sub-section 2 of Section B of Marine Lot No. 67, The Remaining Portion of Section B of Marine Lot No. 67, Sub-section 1 of Section C of Marine Lot No. 67, The Remaining Portion of Section C of Marine Lot No. 67, Section G of Inland Lot No. 66 and The Remaining Portion of Inland Lot No. 66 only)

- Government Notice No. 7420 of 11 November 2011 pursuant to Section 22(1) of the Government Rent and Premium (Apportionment) Ordinance (Cap. 125) dated 11 November 2011, registered vide Memorial No. 11111702560010. (For Section C of Marine Lot No. 67A only)
- Offensive Trade Licence by District Lands Officer, Hong Kong West & South dated 12 December 2011, registered vide Memorial No. 12022300500014. (For Section C of Marine Lot No. 67A, Section A of Sub-section 1 of Section A of Marine Lot No. 67, The Remaining Portion of Sub-section 1 of Section A of Marine Lot No. 67, Section A of Sub-section 1 of Section B of Marine Lot No. 67, The Remaining Portion of Sub-section 1 of Section B of Marine Lot No. 67, The Remaining Portion of Section B of Marine Lot No. 67, Sub-section 1 of Section C of Marine Lot No. 67, The Remaining Portion of Section C of Marine Lot No. 67 and The Remaining Portion of Inland Lot No. 66 only)
- Lease Agreement in favour of Favour Link International Limited dated 10 February 2014, registered vide Memorial No. 15042302380283. (Note: For the period commencing from 10 February 2014 to 31 December 2019)
- Supplementary Deed to Lease Agreement in favour of Favour Link International Limited dated 20 February 2018, registered vide Memorial No. 18022301430011.
- Debenture and Mortgage dated 29 October 2018 in favour of United Overseas Bank Limited, registered vide Memorial No. 18112102410485. (For Section C of Marine Lot No. 67A, The Remaining Portion of Section B of Marine Lot No. 67, The Remaining Portion of Sub-section 1 of Section A of Marine Lot No. 67, The Remaining Portion of Section C of Marine Lot No. 67, The Remaining Portion of Sub-section 1 of Section B of Marine Lot No. 67 and The Remaining Portion of Inland Lot No. 66 only)

HOTEL OPERATION

Hotel Performance in 2018

Occupancy Rate	:	96%
Average Room Rate	:	HK\$949

Lease Agreement

Lessor	:	Tristan Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Effective Date ⁴⁹ and expiring on 31 December 2019
Rental	:	The annual rent receivable in respect of the first, second and third years of the lease term are 5.00%, 5.25% and 5.50% respectively of HK\$1,580 million.

The rent receivable in respect of the remaining lease term shall be determined based on annual market rental reviews performed by independent professional property valuer who will be jointly appointed by the Lessor and the Lessee.

According to the 2018 and 2019 Market Rental Package Determinations, Base Rent for ICSW for the lease year of 2018 and 2019 are HK\$42,000,000 and HK\$46,000,000 respectively; and the Variable Rent is 50% of the excess of the NPI.

⁴⁹ According to the Lease Agreement, "Effective Date" means 10 February 2014.

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	From the Effective Date ⁵⁰ , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of the tenth anniversary of the Effective Date.
Base Fee	:	One percent (1%) of Gross Revenue ⁵¹ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term).
Incentive Fee	:	One percent (1%) of the excess of the Adjusted GOP ⁵² over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term).

LICENCE SCHEDULE

Licences for Mobile Radio Equipment, Integrated Radio Systems and Others

Number of Licences	:	1
Monthly Licence Fee	:	HK\$60,000 per month
Latest Expiry Date	:	31 December 2020

ESTIMATED NET PROPERTY YIELD⁵³

2.8%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2018

HK\$1,660,000,000

⁵⁰ According to the Hotel Management Agreement, “Effective Date” means 10 February 2014.

⁵¹ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁵² According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

⁵³ The Estimated Net Property Yield of ICSW is derived from the rent receivable in 2018 divided by the Market Value.

PROPERTY 8

ICLUB FORTRESS HILL HOTEL

18 Merlin Street
North Point
Hong Kong

The Remaining Portion of Section P of Inland Lot No. 2273,
The Remaining Portion of Sub-section 1 of Section P of Inland Lot No. 2273,
The Remaining Portion of Sub-section 1 of Section H of Inland Lot No. 2273 and
The Remaining Portion of Section H of Inland Lot No. 2273

PROPERTY DESCRIPTION

iclub Fortress Hill Hotel (“ICFH”) is a 32-storey hotel comprising 338 guestrooms completed in 2014. ICFH is located at North Point, a well-established residential area. The immediate locality of the property is mainly residential buildings, office buildings and hotel developments.

Site Area	:	457 sq.m.
Gross Floor Area	:	6,849 sq.m.
Covered Floor Area	:	Approx. 9,400 sq.m.
Town Planning Zoning	:	“Commercial/Residential” zone under North Point Outline Zoning Plan No. S/H8/26 dated 25 August 2017.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iRoom	28	iPlus Premier	30
iSelect	124	iBusiness Premier	48
iPlus	108		
		Total	338

Note: The room sizes range from 10 sq.m. to 16 sq.m.

Other Facilities

Other facilities include a club lounge and a gymnasium.

OWNERSHIP AND TENURE

Registered Owner	:	Wise Decade Investments Limited
Lease Term	:	Inland Lot No. 2273 is held under a Government Lease for a term of 75 years commencing from 25 August 1919 and renewable for a further term of 75 years.

Major Registered Encumbrances

- Offensive Trade Licence from District Lands Office, Hong Kong East dated 20 July 2012, registered vide Memorial No. 12082101060027.
- Lease Agreement in favour of Favour Link International Limited dated 28 July 2014, registered vide Memorial No. 15042302380277. (Note: For the period commencing from 28 July 2014 to 31 December 2019)
- Debenture and Mortgage dated 10 December 2018 in favour of Cathay United Bank Company, Limited, registered vide Memorial No. 18122102550151.

HOTEL OPERATION

Hotel Performance in 2018

Occupancy Rate	:	90%
Average Room Rate	:	HK\$715

Lease Agreement

Lessor	:	Wise Decade Investments Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Effective Date ⁵⁴ and expiring on 31 December 2019
Rental	:	The annual rent receivable in respect of the first, second and third years of the lease term are 5.00%, 5.25% and 5.50% respectively of HK\$1,650 million.

The rent receivable in respect of the remaining lease term shall be determined based on annual market rental reviews performed by independent professional property valuer who will be jointly appointed by the Lessor and the Lessee.

According to the 2018 and 2019 Market Rental Package Determinations, Base Rent for ICFH for the lease year of 2018 and 2019 are HK\$42,390,000 and HK\$46,000,000 respectively; and the Variable Rent is 50% of the excess of the NPI.

⁵⁴ According to the Lease Agreement, "Effective Date" means 28 July 2014.

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	From the Effective Date ⁵⁵ , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of the tenth anniversary of the Effective Date.
Base Fee	:	One percent (1%) of Gross Revenue ⁵⁶ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term).
Incentive Fee	:	One percent (1%) of the excess of the Adjusted GOP ⁵⁷ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term).

LICENCE SCHEDULE

Licences for Mobile Radio Equipment, Integrated Radio Systems and Others

Number of Licences	:	1
Monthly Licence Fee	:	HK\$60,000 per month
Latest Expiry Date	:	31 December 2020

ESTIMATED NET PROPERTY YIELD⁵⁸

2.6%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2018

HK\$1,700,000,000

⁵⁵ According to the Hotel Management Agreement, “Effective Date” means 28 July 2014.

⁵⁶ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁵⁷ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

⁵⁸ The Estimated Net Property Yield of ICFH is derived from the rent receivable in 2018 divided by the Market Value.

PROPERTY 9

ICLUB MA TAU WAI HOTEL

8 Ha Heung Road
(formerly known as 8, 8A, 10, 10A, 12 and 12A Ha Heung Road)
Kowloon
Hong Kong

Section C of Kowloon Inland Lot No. 4148

PROPERTY DESCRIPTION

iclub Ma Tau Wai Hotel ("ICMTW") is a 22-storey (including 1 basement floor) medium tariff hotel completed in 2017. It has 340 guestrooms which are located on 5th to 23rd floors of the building. The property provides certain carparking spaces on the basement and ground floor.

The property is located at Ma Tau Wai, which is in close proximity to Kowloon City, Hung Hom and Kai Tak districts. The developments in immediate locality are mainly residential buildings.

Site Area	:	700 sq.m.
Gross Floor Area⁵⁹	:	6,298 sq.m.
Covered Floor Area	:	Approx. 9,490 sq.m.
Town Planning Zoning	:	"Residential (Group A)" zone under Approved Ma Tau Kok Outline Zoning Plan No. S/K10/23 dated 9 March 2018.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iSelect	48	iPlus Premier	60
iPlus	112	iBusiness Premier	72
iSelect Premier	48		
		Total	340

Note: The room sizes range from 11 sq.m. to 16 sq.m.

Other Facilities

Other facilities include a lounge, computer area and fitness area.

⁵⁹ The Gross Floor Area excludes 158.11 sq.m. lift exempted area.

OWNERSHIP AND TENURE

Registered Owner	:	Land Crown International Limited
Lease Term	:	Section C of Kowloon Inland Lot No. 4148 is held under a Conditions of Sale No. 3945 for a term of 75 years commencing from 26 June 1939 and renewable for a further term of 75 years.
Government Rent	:	3% of the rateable value of the Property

Major Registered Encumbrances

- Occupation Permit No. KN52/2016 (OP), dated 23 November 2016, registered vide Memorial No. 17091300940028.
- Lease Agreement for iclub Ma Tau Wai Hotel in favour of Favour Link International Limited, dated 4 September 2017, registered vide Memorial No. 17091300940063.
- Debenture and Mortgage (Constituting Fixed and Floating Charges) in favour of United Overseas Bank Limited, dated 4 September 2017, registered vide Memorial No. 17091802150273.

HOTEL OPERATION

Hotel Performance in 2018

Occupancy Rate	:	84%
Average Room Rate	:	HK\$615

Lease Agreement

Lessor	:	Land Crown International Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Effective Date ⁶⁰ and expiring on the date immediately preceding the fifth anniversary of the date of the Lease Agreement.
Rental	:	The annual rent receivable in respect of the first, second, third, fourth and fifth years of the lease term are 4.00%, 4.25%, 4.50%, 4.75% and 5.00% respectively of HK\$1,360 million.

The rent receivable in respect of the remaining lease term shall be determined based on annual market rental reviews to be conducted by independent professional property valuer who will be jointly appointed by the Lessor and the Lessee.

⁶⁰ According to the Lease Agreement, "Effective Date" means 4 September 2017.

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	From the Effective Date ⁶¹ , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of the tenth anniversary of the Effective Date.
Base Fee	:	One percent (1%) of Gross Revenue ⁶² (for so long as the Lease Agreement is in subsistence); or
	:	Two percent (2%) of Gross Revenue (for other cases during the Operating Term).
Incentive Fee	:	One percent (1%) of the excess of the Adjusted GOP ⁶³ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or
	:	Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term).

ESTIMATED NET PROPERTY YIELD⁶⁴

3.7%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2018

HK\$1,490,000,000

⁶¹ According to the Hotel Management Agreement, “Effective Date” means 4 September 2017.

⁶² According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁶³ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

⁶⁴ The Estimated Net Property Yield of ICMTW is derived from the fixed rent receivable in 2018 divided by the Market Value.

HOTEL MARKET OVERVIEW

In 2018, Hong Kong received a total of 65.15 million visitor arrivals, the number sets a new annual high that was previously held in 2014, representing a double-digit year-on-year (y-o-y) growth of 11.4%. Visitors from the Mainland continued to make up the vast majority of tourism activity in Hong Kong, contributing 78% of total visitor arrivals or 51 million visitors, registering a growth of 14.8% y-o-y. Total overnight arrivals rose by 4.9% y-o-y to 29.2 million, of which overnight arrivals from the Mainland increased by 7.4% to 19.9 million⁶⁵, the growth was propelled by the opening of the Hong Kong section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link (XRL) and the Hong Kong–Zhuhai–Macao Bridge (HKZM Bridge).

Overnight arrivals from international markets totalled 9.36 million in 2018, on par with the level in 2017. Short-haul markets was somewhat affected by the intense competition among regional destinations and reported a slight decrease of 1.6% y-o-y to 5.6 million. Nevertheless, growth was recorded in overnight arrivals from Japan (+4.8% y-o-y) and Thailand (+4.5% y-o-y). Overnight arrivals from long-haul markets rose by 2.8% y-o-y to 3.22 million⁶⁶.

Strong growth in visitor arrivals to Hong Kong coupled with the lack of new hotel supply boosted hotel performance in 2018, bringing up the citywide occupancy to 91% and ensured modest growth in occupancy, average room rate and room nights sold. Overall hotel room rate in Hong Kong saw a solid growth of 6.8% y-o-y to an average of HK\$1,375 per night, while occupancy rate increased from 89% to 91% for 2018 as a whole. Performance of High Tariff A Hotels finished 2018 with an average rate of HK\$2,152 per night at an average occupancy of 89% that increased from 86% in 2017. High Tariff B and Medium Tariff hotels registered an increase in average rates to HK\$1,178 and HK\$797 per night, and recorded higher occupancy rates at 91% and 93%, respectively⁶⁷.

The completion of major infrastructure projects such as the HKZM Bridge as well as the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong XRL will enhance transport connections between Hong Kong and other cities in Mainland China. As one of the strategic cross-border infrastructure projects planned for the Greater Bay Area (GBA), the HKZM Bridge connects Hong Kong with Zhuhai and Macau to form a mega tourism hub offering sightseeing, gaming, theme parks and MICE facilities. The bridge will later be connected to Tuen Mun and the Hong Kong International Airport via the Tuen Mun-Chek Lap Kok Link. The XRL shortened the travel time for travellers between Hong Kong, Shenzhen and Guangzhou from about two hours to less than one hour. These new infrastructure projects are set to provide an unprecedented opportunity to the hospitality industry as the Mainland cities are now better connected to Hong Kong.

⁶⁵ Source: HKTB, Visitor Arrival Statistics – December 2018.

⁶⁶ Source: HKTB, Visitor Arrival Statistics – December 2018.

⁶⁷ Source: HKTB, Hotel Room Occupancy Report – December 2018.

According to the 2018-19 budget, the government will allocate a total of HK\$396 million to the tourism industry, of which HK\$226 million of the fund will be provided to the Hong Kong Tourism Board (HKTB) to implement the Development Blueprint for Hong Kong's Tourism Industry released by the Tourism Commission. One of the four major industry development strategies from the Development Blueprint is to develop new attractions and tourism products for a diversified portfolio of visitor source markets, along with a renewed focus on "smart tourism", thereby diverting tourists to sightsee in different districts of Hong Kong⁶⁸. Other recent legislative developments include the Travel Industry Bill, which is aimed at upgrading the service quality of the tourism industry in Hong Kong and encouraging good trade practices. In addition, the HKTB announced its work plan for 2019/20 and will continue to focus its promotion in 20 major source markets including short-distance markets such as Taiwan, Japan, South Korea and Southeast Asia on the diverse travel experiences visitors can have in Hong Kong⁶⁹.

Under the Development Blueprint initiative, the government continues to enhance the appeal of Hong Kong as an ideal MICE (Meetings, Incentive Travels, Conventions and Exhibitions) destination in Asia, aiming at bringing in more overnight and high value-added visitors from around the world. In the first nine months of 2018, the total number of overnight MICE visitor arrivals increased by 1.0% y-o-y to 1.23 million⁷⁰.

Tourism development work has been underway at Hong Kong's two major theme parks - Ocean Park and Hong Kong Disneyland. Ocean Park's Tai Shue Wan Water World project is scheduled for completion by the end of 2019⁷¹. It is projected that this new attraction would draw 1.5 million visitors in its first year of operation. On the other side of the island, the Hong Kong Disneyland rolled out its expansion plan on the several new attractions and entertainment offerings that will be added to the park by 2023⁷². More leisure travellers are expected to be drawn to Hong Kong given the new developments in both theme parks and other renewed tourism spots and facilities.

In 2018, a total of 14 hotels, over 2,500 new rooms were added to the market. New hotel openings were mainly midscale and upper midscale hotels, most notably the Ocean Park Marriott with 472 rooms was opened in October 2018. The estimated figure of hotels will increase to 319 in 2019, providing over 87,000 rooms, this figure will translate to over 20 new hotels⁷³. Nevertheless, we expect the actual completions will be lower than the estimate figure as slight delay of new hotel openings is considered a common trend in the market.

The competitiveness in the hotel industry has been intensified by continuous development and expansion plans in hotels over the past years. However, with the continued recovery of Hong Kong's tourism industry, we expect the overall occupancy rate will stay at a high level in 2019 as the introduction of new hotels in the coming years would cater the growing demand from visitors, leading to an increase in Room Nights Sold. The outlook of the hotel industry would therefore remain optimistic in the short- to medium-term under the support of new infrastructure and government initiatives.

⁶⁸ Source: The 2018-19 Budget, www.budget.gov.hk/2018/eng/budget16.html

⁶⁹ Source: HKTB Work Plan for 2019/2020.

⁷⁰ Source: MEHK, Statistics on MICE Arrivals 2018, September 2018.

⁷¹ Source: www.tourism.gov.hk/english/current/current_taishuewan.html

⁷² Source: Hong Kong Disneyland - Press Release.

⁷³ Source: HKTB, Hotel Supply Situation – as at September 2018.

1. REGAL AIRPORT HOTEL

Regal Airport Hotel (RAH) is located next to the Hong Kong International Airport (HKIA), the only hotel that has a direct link to the airport. In 2018, the HKIA recorded continuous traffic growth, reaching new annual heights of 74.7 million passengers and 427,725 flight movements, represented an increase of 2.5% year-on-year and 1.7% year-on-year respectively⁷⁴. The continuous increase of visitors benefits RAH as its potential customers came from passengers that landed through the HKIA.

RAH has a location advantage to major destinations in Hong Kong, such as the Asia World-Expo. The Expo holds many international exhibitions, events, conferences, and concerts each year as its arena is known as the largest indoor convention and hospitality hall in Hong Kong that provides a total capacity of 14,000 seats. Due to RAH's proximity to the World-Expo, the hotel became a popular choice among business travellers, which also impelled the demand for the hotel's MICE business.

RAH is located close to major attractions in Hong Kong such as the Ngong Ping 360 and Hong Kong Disneyland. A wide range of international retail brands can be found at the airport, as well as a nearby shopping centre – Citygate that features one of Hong Kong's major retail outlet.

Situated on the largest outlying island in Hong Kong, RAH is connected to all major districts in the city, with public transportation including buses that runs around 49 routes from the HKIA, and the Airport Express Line that only takes 24 minutes to reach from HKIA to Central. A sub-sea road tunnel that links between Tuen Mun and Chek Lap Kok will be completed by 2020 earliest, connecting the Northwest New Territories with the airport. RAH is also conveniently located near the HKZB Bridge, which connects the city with two peninsula cities - Zhuhai and Macau. The bridge is expected to bring Hong Kong, Zhuhai and Macau closer together as a 'tourism triangle', driving demand for shopping complexes, integrated resorts and MICE facilities in all three cities. RAH could benefit from the increasing flow of visitors arriving Hong Kong through the bridge as it attracted more business, leisure and layover travellers.

Given RAH's strategic location, the airline crews accounted for 25.1% of the total hotel guests, and guests from emergency layovers due to delays/cancellations of flights accounted for 1.6% in 2018. A high proportion of guests were travelling for business purpose as it stood at 50.3%, and leisure travellers accounted for 23.0%. In terms of geographical segmentation of hotel guests, visitors from Asia (excluding China) made up the largest proportion of guests at 38.6%, followed by Mainland China visitors at 32.3%, and American visitors at 13.3%.

HKIA's Terminal 2 and the three-runway system expansion project are expected to complete by 2024. The completion of the newly added facilities will bring in more passengers and visitors to the city. The SkyCity development located near RAH, is scheduled to be opened in phases from 2023 to 2027. The development of SkyCity integrates retail, dining and entertainment commercial center that will increase the attractiveness among visitors, creating opportunities driving foot traffic to the surrounding area. A new hotel project developed by the Regal Hotels International is currently taken place at the SkyCity. The hotel is expected to launch in 2021, offering a total of 1,208 hotel rooms⁷⁵. Other major hotels in the vicinity include Novotel Citygate hotel in Tung Chung and Hong Kong SkyCity Marriott Hotel at the SkyCity which provide a total of 440 and 658 guest rooms, respectively, whilst a new proposed hotel development, The Silveri, MGallery by Sofitel Hong Kong is under construction in Tung Chung, offering a total of 206 guest rooms, scheduled for completion in mid-2019⁷⁶.

Based on the projected long-term growth in airport traffic turnover and the expansion of the HKIA projects, RAH is poised to benefit from the growing passenger movements at HKIA and will achieve steady growth in both occupancy and average room rates in 2019.

⁷⁴ Source: Hong Kong International Airport, "Provisional Civil International Air Traffic Statistics at HKIA" December 2018.

⁷⁵ Source: SkyCity Hong Kong, www.skycityhongkong.com

⁷⁶ Source: HKTB, Hotel Supply Situation – as at September 2018.

2. REGAL HONGKONG HOTEL

Regal Hongkong Hotel (RHK) is located in Causeway Bay, one of Hong Kong's major commercial hubs and retail precincts, characterised by a mixture of street shops, shopping malls and Ginza-style vertical retail buildings. The area is also clustered with several office buildings, often atop of shopping centres. Various modes of public transports are available along Hennessy Road and Gloucester Road. The Causeway Bay MTR Station is a five-minute walk from RHK with trams also running pass Hennessy Road.

Causeway Bay is regarded as a popular shopping venue to local shoppers and tourists. Prime retail streets include Russell Street, Percival Street, Jardine's Bazaar and Paterson Street. The area is also served by a number of prime shopping malls namely Times Square, Hysan Place, Fashion Walk, Lee Garden One & Two, Lee Theatre and SOGO Department Store. As a peripheral business district, there has been an increasing number of companies relocated to Causeway Bay for lower occupancy costs as compared to Central CBD.

Given its proximity to key office developments and Hong Kong Convention and Exhibition Centre, the room night demand at RHK was driven significantly by business travellers, which accounted for 73.5% of total hotel guests, whilst leisure travellers accounted for 26.5%. RHK had a mix profile of hotel guests in 2018, visitors from Mainland China made up the largest proportion of guests at 58.6%, followed by Asia (excluding China) at 29.4%, while European visitors accounted for 5.8% and American visitors accounted for 2.3%.

There is no record of new hotel supply added to Causeway Bay in 2018. A proposed hotel along Tang Lung Street is expected to launch by 2022, offering a total of 69 rooms. The Excelsior Hotel on Gloucester Road that is currently offering a total of 869 rooms will be closed in March 2019 for redevelopment into a commercial building⁷⁷.

RHK is located at a vibrant district in Hong Kong, which gained much attention from Mainland Chinese tourists and business travellers due to its locational convenience. Based on the sustained recovery of the overall hotel industry and the limited new supply of hotels in Causeway Bay, it is expected that the growth in both occupancy and room rates, as well as RevPAR of RHK to be in line with the overall hotel market in 2019.

⁷⁷ Source: HKTB, Hotel Supply Situation – as at September 2018.

3. REGAL KOWLOON HOTEL

Regal Kowloon Hotel (RKH) is located in Tsim Sha Tsui East, a district that is known as Hong Kong's major commercial hub and retail precinct. The general locality is surrounded by major shopping malls that are popular among tourists such as Harbour City, 1881 Heritage, The One, Silvercord, iSQUARE and K11. Tsim Sha Tsui also houses various museums and performance venues such as the Hong Kong Cultural Centre, Hong Kong Museum of Art and Hong Kong Space Museum. The Hong Kong Museum of History and Hong Kong Science Museum are situated in Tsim Sha Tsui East.

RKH is accessible by various public transportations, it is served by both Tsim Sha Tsui East and Tsim Sha Tsui Mass Transit Railway (MTR) Station. The Tsim Sha Tsui Star Ferry Pier that connects to the Hong Kong Island is also in vicinity of RKH.

The popular tourist attraction - Avenue of Stars, re-opened in January 2019 after its four-year reconstruction is expected to increase the foot traffic in Tsim Sha Tsui harbourfront area. The attraction is only 13 minutes' walk from RKH. Since RKH is situated near the Tsim Sha Tsui East shoreline, certain hotel rooms are able to enjoy the view of Victoria Harbour.

Business travellers made up the largest proportion of hotel guests in RKH as it accounted for nearly 60% of the total guests, attributed to its strategic location near major office developments; and the 40% of guests visited for leisure purpose. RKH had a PRC-focus guest profile in 2018, with 47% of guests came from Mainland China; 38.2% of guests from Asian countries (excluding PRC), 10% from European countries, and the remaining from America and other countries.

New hotel supply in 2018 include Soravit On Granville, OTTO Hotel, and Empire Prestige added a total of 211 rooms to the Tsim Sha Tsui district. Looking ahead, Rosewood Hotel located on Salisbury Road that offers 413 rooms, is scheduled to open in 2019, and Page Hotel located on Austin Road will offer 197 rooms⁷⁸. The new hotel developments are unlikely to have a significant impact against RKH due to the differences in their operation scale, market position and targeted markets. Furthermore, the high demand for hotel rooms in the Tsim Sha Tsui area is likely to absorb the additional room supply easily.

The diversity of Tsim Sha Tsui forms as a popular tourist destination in Hong Kong, especially to Mainland visitors. Under the Greater Bay Area Initiative, strategic cross-border infrastructure projects and favorable government policies accelerate the growth of Chinese visitors to Hong Kong, benefiting the city's hospitality sector. It is anticipated that RKH will achieve steady growth in both occupancy and average room rate in 2019.

⁷⁸ Source: HKTB, Hotel Supply Situation – as at September 2018.

4. REGAL ORIENTAL HOTEL

Regal Oriental Hotel (ROH) is located in Kowloon City, in proximity to the Kai Tak development site. The general locality is characterised by street level shops and major shopping malls namely Kowloon City Plaza and Mikiki Mall. There are also major shopping centres such as Festival Walk in the nearby district.

The Kai Tak Development Area (KTDA) located in vicinity of ROH is a major new development zone in Kowloon East. Over the past decade, more resources have been allocated to developing the eastern areas of Kowloon. In 2018, the Kai Tak Cruise Terminal welcomed a total ship calling of 199, which was six times of the figure in 2014⁷⁹. The KTDA is set to be developed into a new commercial district to complement the city's traditional CBD on Hong Kong Island. Kowloon East has gathered the momentum for a new wave of developments. About 18 million square feet of commercial and office space has been planned for within the 320-hectare KTDA with designated new residential area, an international cruise terminal, sports and tourism facilities⁸⁰. In 2018, the Kai Tak Sports Park development was awarded to New World Development and is scheduled for completion in 2023, offering a total of 50,000 seats at Main Stadium. The stadium will host major sports games, school athletic meetings; and will also be available for community uses. The facilities will complete the area with a more all-rounded development⁸¹. The recent land bidding prices at KTDA reflected the future development of the area shall not be undermined.

Several major infrastructure projects are currently under planning and construction around Kowloon East to cope with the growing transportation demand. These include the Mass Transit Railway Shatin-Central Link (SCL), a proposed monorail system; and an integrated road network project - the Central Kowloon Route (CKR) that connects East Kowloon and West Kowloon mainly through an underground tunnel⁸².

The SCL will connect Kai Tak with Admiralty in around 10 to 15 minutes once in operation. With the existing alignment planning, ROH will be located within 5 minutes' walking distance from the proposed Kai Tak MTR station. The accessibility of ROH will be further enhanced. The CKR highway is currently under construction, the commuting time between Kowloon East and the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) Station at Kowloon West will reduce to less than 10 minutes⁸³.

In 2018, the majority of ROH guests came from Asia countries (excluding PRC) as it took up 47.9% of the total visitors, while PRC took up 42.2% of total guests. The remaining guests are made up by European and American visitors. Visitors travelling for leisure made up the largest proportion in the hotel, reflecting the budget travellers' demand. Visitors with business purpose dropped by 2.38 pts to 45.2%.

As both working and resident populations of the area continue to increase, there will be a growing demand for other commercial and community amenities including shopping malls, hotels and recreational facilities. The nearby hotels including ROH is expected to experience a growth in demand from both business and leisure travellers.

There is no new hotel supply added in Kowloon City in 2018. A proposed hotel located on Tam Kung Road is expected to launch in mid-2019, offering a total of 99 rooms. The competition of this new hotel is expected to be minimal as it has different market positioning and pricing strategies from ROH⁸⁴.

The sustained recovery of the hotel industry has given a positive outlook to the market in 2019. With the supply of hotel rooms remained limited in the short to medium term, it is anticipated that ROH's occupancy and room rates will grow further, and the RevPAR will be in line with the overall hotel market in 2019.

⁷⁹ Source: Kai Tak Cruise terminal, www.kaitakcruiseterminal.com.hk/schedule/2018-2/

⁸⁰ Source: Civil Engineering and Development Department, "Overview of Kai Tak Development", www.ktd.gov.hk

⁸¹ Source: Kai Tak Sports Park, www.kaitaksportspark.hk

⁸² Source: Highways Department, "Central Kowloon Route", www.ckr-hyd.hk

⁸³ Source: MTR's corporate website, www.mtr.com.hk

⁸⁴ Source: HKT B, Hotel Supply Situation – as at September 2018

5. REGAL RIVERSIDE HOTEL

Regal Riverside Hotel (RRH) is located in Sha Tin, adjacent to the Shing Mun River. The general locality is mainly characterized by residential developments. Major shopping and entertainment venues in the area include New Town Plaza, which has gradually evolved as a regional shopping centre. The district also offers some unique cultural experience such as the Dragon Boat Festival, horse racing at the Sha-tin Racecourse, and the Hong Kong Heritage Museum.

The under-construction of Mass Transit Railway Sha Tin Central Link (SCL) project will provide access from Tai Wai to Admiralty, a direct linkage between the New Territories and Hong Kong Island. The rail link would greatly benefit RRH once in operation as the connectivity between Sha Tin and Hong Kong Island will be greatly enhanced⁸⁵.

In 2018, over half (50.5%) of RRH's guests came from Asia countries (excluding PRC). With the easy access from Shenzhen to Shatin via the MTR, 42.8% of guests stayed in RRH were from Mainland China. Over 65% of RRH's guests were business travellers in 2018, while around 34.7% of guests were leisure travellers.

No new hotels were completed in Sha Tin in 2018. In the second half of 2019, the Hotel Alva by Royal located on Yuen Hong Street will add a total of 618 rooms to the market⁸⁶.

The steady recovery of hotel industry and supply constraints in short to medium term provides a positive outlook of the market in 2019. With the enhanced infrastructure and strategic location along the MTR East Rail Line, it is anticipated that RRH will continue to attract a balance mix of business and leisure travellers and achieve steady growth in both occupancy and average room rates in 2019.

⁸⁵ Source: MTR's corporate website, www.mtr.com.hk

⁸⁶ Source: HKTB, Hotel Supply Situation – as at September 2018.

6. ICLUB WAN CHAI HOTEL

iclub Wan Chai Hotel (ICWC) is located at the heart of Wan Chai, one of the peripheral commercial hubs extending from Admiralty's east and Causeway Bay's west. The area is characterised by a mixture of office buildings, street shops, restaurants, hotels and historical sites such as Hung Shing Temple and Pak Tai Temple. The Hong Kong Convention and Exhibition Centre (HKCEC) is one of the two major convention and exhibition venues in Hong Kong, located in Wan Chai North, built along the Victoria Harbour and linked by covered walkways to nearby hotels and major commercial buildings. HKCEC caters over hundreds of events each year, attracting visitors from around the world.

The district is also clustered with over 20 Grade A and A- office buildings. Notable office buildings include Three Pacific Place, Hopewell Center, Sun Hung Kai Centre, Great Eagle Centre and Central Plaza.

ICWC is within ten minutes' walk from the Wan Chai Mass Transit Railway (MTR) Station, with trams running through Wan Chai along Johnston Road and Hennessy Road. Various modes of public transportation are also available along Hennessy Road, Johnston Road and Gloucester Road. The Wan Chai Ferry Pier also provides ferry services to Tsim Sha Tsui. In addition, Central-Wan Chai Bypass that opened to traffic in January 2019 is set to ease traffic congestion along the existing Gloucester Road and Harcourt Road⁸⁷.

Due to its proximity to the HKCEC, the room night demand at ICWC was significantly driven by business travellers, which accounted for 94.5% of the total hotel guests, whilst leisure travellers accounted for merely 5.5% in 2018. ICWC had a relatively balanced hotel guest profile by geographical distribution, visitors from Asia (excluding China) made up the largest proportion of guests at 47.7%, followed by Mainland China visitors at 23.9%, while 15.7% of guests were from Europe.

There are several hotel developments under construction in Wan Chai, St. Regis Hong Kong Hotel on Harbour Road is scheduled to launch by mid-2019, offering 120 rooms. Two more hotels on the Morrison Hill Road and the Lockhart Road are proposed to launch in 2020, expecting to provide a total of 391 guest rooms to the market. Hopewell Centre II, which is currently under construction is targeted to complete by the end of 2021. The project is set to develop into a conference hotel with approximately 1,024 guest rooms⁸⁸. New hotel developments in the district are unlikely to have significant impact against ICWC due to differences in scale of operation and positioning. Furthermore, the strong demand for hotel rooms in Wan Chai is likely to absorb the additional room supply easily.

ICWC will continue to benefit from the strong demand generated from business travellers attending events in HKCEC. In addition, ICWC is set to be the prime choice of millennial travellers, who are prone to accommodation characterised by modern design and technology. Based on the sustained recovery of the overall hotel industry, it is expected that the ICWC's occupancy and room rate growth would continue. The RevPAR will be in line with the overall hotel market in 2019.

⁸⁷ Source: Highways Department, "Central-Wan Chai Bypass and Island Eastern Corridor Link", www.cwb-hyd.hk

⁸⁸ Source: HKTB, "Hotel Supply Situation" – as at September 2018.

7. ICLUB SHEUNG WAN HOTEL

iclub Sheung Wan Hotel (ICSW) is located on Bonham Strand in Sheung Wan. The general locality is characterised by a mixture of boutique hotels, office buildings, street shops, and restaurants. Sheung Wan is known for various specialty retail stores, ranging from antiques stores and art galleries of all kinds along Hollywood Road to Chinese dried seafood specialty stores along Wing Lok Street and Des Voeux Road West. The area is also covered by historical buildings and sites including the Dr. Sun Yat-Sen Historical Trail, Man Mo Temple, PMQ and Tai Kwun (Former Central Police Station Compound). The compound underwent a heritage revitalisation and reopened to the public in 2018 as "Tai Kwun" a centre for heritage and art⁸⁹. These traditional historical buildings provide a taste of Hong Kong culture which is popular amongst tourists.

ICSW is within ten minutes' walk from the Sheung Wan Mass Transit Railway (MTR) Station; and to the tram terminus located at Western Market. Public transports are generally available along Queen's Road Central and Des Voeux Road Central. The Hong Kong-Macau Ferry Terminal in Shun Tak Centre provides ferry and helicopter services connecting to Macau and cities in southern China. ICSW is also easily accessed by taxis and buses.

With its proximity to Central as a peripheral business district together with various historical sites, ICSW set to attract both business and leisure travellers. It is also the preferred choice for millennial travellers who are more inclined for accommodation characterised by modern design and technology. ICSW had a relatively balance guest mix with 78% business guests and 22% leisure guests in 2018. ICSW had an Asian-focus hotel guest profile by geographical distribution in 2018, with 54% of guests from Asia (excluding China), followed by 26% of guests from mainland China, and 20% of guests from other countries.

A boutique hotel, AKVO Hotel providing 30 guest rooms at No. 57 Jervois Street opened in Sheung Wan in 2018. Given the significantly smaller scale of this hotel, the competition to ICSW is considered relatively minimal⁹⁰.

According to the latest figures from HKTB, Central and Western District offers a total of 52 hotels, offering a total of 9,037 rooms. The favorable location of ICSW is the major draw to travellers as it is located close to Central, the major CBD in Hong Kong. The limited supply in 2019 in Sheung Wan will drive the growth in both occupancy and room rates, whilst the RevPAR of ICSW will be in line with the overall hotel market in 2019.

⁸⁹ Source: Tai Kwun, Centre for Heritage and Arts, www.taikwun.hk

⁹⁰ Source: HKTB, Hotel Supply Situation – as at September 2018.

8. ICLUB FORTRESS HILL HOTEL

iclub Fortress Hill Hotel (ICFH) is located in North Point, one of the major decentralised business districts and a prominent residential area on Hong Kong Island. North Point is bordered by Victoria Harbour in the north and Causeway Bay in the west. It has a well-developed transportation network where it links to various parts of Hong Kong by means of comprehensive public transports, Eastern Corridor and Mass Transit Railway (MTR), providing convenient access to other territories in Hong Kong. The Fortress Hill MTR Station is a five-minute walk from ICFH, with Tin Hau MTR Station also located nearby.

ICFH is close to Causeway Bay, one of the major shopping destinations on the Island and regarded as a common shopping venue to adolescences, tourists and local shoppers. The area has a comprehensive mix of retailers and restaurants catering a diverse group of consumers. Prime retail streets include Russell Street, Percival Street, Jardine's Bazaar and Paterson Street, and the area is served by a number of prime shopping malls such as Times Square, Hysan Place, Fashion Walk, Lee Garden One & Two and SOGO Department Store.

Fortress Hill comprises several office buildings such as 169 Electric Road, AIA Tower, Fortress Tower and Citicorp Centre. ICFH is also in vicinity to Victoria Park and the Hong Kong Stadium where various international events would be held in these venues. Quarry Bay is one MTR station away from North Point and is another key decentralised business district comprising several landmark office developments.

With its proximity to the office, retail, entertainment and recreation clusters on Hong Kong Island, ICFH recorded a mixed profile of guests - 65.7% business guests and 34.3% leisure guests in 2018. By geographical distribution, visitors from Asia (excluding China) made up the largest proportion of guests at 43.9%, followed by Mainland China visitors at 41.1% and 15% of guests were from other countries.

Hotel VIC on the Harbour, with 665 rooms located between North Point Ferry Pier and Java Road in North Point was opened in July 2018. This hotel is positioned differently from ICFH as it targets first-tier, high-spending business travellers, and long-haul tourists. The market segment of this new hotel is therefore not expected to compete directly with ICFH⁹¹.

Based on the sustained recovery of the overall hotel industry and the balanced supply situation in the next few years, it is expected that the growth in both occupancy and room rates, as well as RevPAR of ICFH will be in line with the overall hotel market in 2019.

⁹¹ Source: HKTB, Hotel Supply Situation – as at September 2018.

9. ICLUB MA TAU WAI HOTEL

iclub Ma Tau Wai Hotel (ICMTW) is located in To Kwa Wan. The area is an established residential neighbourhood, with Kai Tak Development Area (KTDA) - the new development zone in Kowloon East located in vicinity of ICMTW. Over the past decade, more resources have been allocated to developing the eastern areas of Kowloon. It is set to be developed into a new commercial district to complement the city's traditional CBD on Hong Kong Island.

Kowloon East has gathered the momentum for a new wave of developments. About 18 million square feet of commercial and office spaces was planned for within the 320-hectare KTDA. New designated residential developments, sports, and tourism facilities are also set to develop in the KTDA⁹². In 2018, the Kai Tak Cruise Terminal welcomed a total ship calling of 199 which was six times from 28 in 2014⁹³. With both working and resident populations of the area expected to increase, there will be a growing demand for commercial and community amenities including shopping malls, hotels, and recreational facilities.

Several major infrastructure projects are under planning and construction around Kowloon East to cope with the growing transportation demand. These include the Mass Transit Railway Shatin-Central Link (SCL)⁹⁴, a proposed monorail system; and an integrated road network project - the Central Kowloon Route (CKR)⁹⁵ that connects East Kowloon and West Kowloon mainly through an underground tunnel.

The SCL will connect To Kwa Wan with Admiralty in around 10 to 15 minutes once in operation. Under the existing alignment planning, accessibility is greatly enhanced as the ICMTW is within 10 minutes' walk from the proposed To Kwa Wan MTR Station. The CKR project will also improve the connectivity as travelling time between East Kowloon and other commercial hubs in western Hong Kong such as Central and West Kowloon will be drastically shortened. The CKR highway is currently under construction, the commuting time between Kowloon East and the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) Station at Kowloon West will reduce to less than 10 minutes.

ICMTW had a guest mix profile of (52%) business guests and (48%) leisure guests in 2018. ICMTW had a balanced hotel guest profile by geographical distribution in 2018, of which 48.6% of guests were from Asia (excluding China), 39.8% of guests from mainland China, and 11% of guests from other countries.

The total number of hotels in Kowloon City will remain at 18 in 2019, with 7,966 rooms. The Summit View Hotel under YWCA hotels arm Y Hospitality with 130 rooms at No. 5 Man Fuk Road in Ho Man Tin, formerly YWCA Anne Black Guest House, closed for renovation in 2014 and reopened in 2018. Due to different development scale and market segment, this hotel would have limited impact to ICMTW. In addition, Holiday Inn Express Hong Kong Kowloon CBD2 with 286 rooms located in Kwun Tong opened in December 2018⁹⁶. This new entrant's impact is expected to be minimal as it has different market positioning and pricing strategies from ICMTW.

ICMTW will continue to be the prime choice of millennial travellers given the growing brand awareness of Regal Group in Mainland China, as well as the ICMTW's modern technology integration on hotel amenities. Based on the sustained recovery of the hotel industry and the short to medium term supply constraints, it is anticipated that ICMTW will achieve positive growth in both occupancy and average room rates in 2019.

⁹² Source: Civil Engineering and Development Department, "Overview of Kai Tak Development", www.ktd.gov.hk

⁹³ Source: Kai Tak Cruise terminal, www.kaitakcruiseterminal.com.hk/schedule/2018-2/

⁹⁴ Source: MTR's corporate website, www.mtr.com.hk

⁹⁵ Source: Highways Department, "Central Kowloon Route", www.ckr-hyd.hk

⁹⁶ Source: HKTB, Hotel Supply Situation – as at September 2018.

SUMMARY OF PROPERTY PORTFOLIO

As at 31st December, 2018

	Description	Use	Lease	Gross Floor Area (sq.m.)	Approx. Covered Floor Area (sq.m.)	Percentage interest attributable to Regal REIT
(1)	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	Hotel	Medium term	71,988	83,400	100
(2)	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	Hotel	Long term	25,090	32,000	100
(3)	Regal Kowloon Hotel 71 Mody Road Tsimshatsui Kowloon Hong Kong	Hotel	Long term	31,746	43,500	100
(4)	Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and the whole of 1/F Po Sing Court 21-25 Shek Ku Lung Road 40-42 Sa Po Road and 15-29 Carpenter Road Kowloon City Kowloon Hong Kong	Hotel	Medium term	22,601	27,300	100

	Description	Use	Lease	Gross Floor Area (sq.m.)	Approx. Covered Floor Area (sq.m.)	Percentage interest attributable to Regal REIT
(5)	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin, New Territories Hong Kong	Hotel	Medium term	59,668	69,100	100
(6)	iclub Wan Chai Hotel Shops A, B and C on G/F, Flat Roof on 3/F, Whole of 5-12/F, 15-23/F and 25-29/F Eastern and Western Elevations of External Walls Architectural Feature at Roof Top and Upper Roof 211 Johnston Road Wan Chai Hong Kong	Hotel/ commercial	Long term	5,326	5,530	100
(7)	iclub Sheung Wan Hotel 138 Bonham Strand Sheung Wan Hong Kong	Hotel	Long term	7,197	9,600	100
(8)	iclub Fortress Hill Hotel 18 Merlin Street North Point Hong Kong	Hotel	Long term	6,849	9,400	100
(9)	iclub Ma Tau Wai Hotel 8 Ha Heung Road Kowloon Hong Kong	Hotel	Long term	6,298	9,490	100

SUMMARY FINANCIAL INFORMATION

The summary of the results, the distributions and the assets and liabilities of the Group, as extracted from the published audited consolidated financial statements, is set out below.

Summary of the results and distributions

	Year ended 31st December, 2018 HK\$'000	Year ended 31st December, 2017 HK\$'000	Year ended 31st December, 2016 HK\$'000	Year ended 31st December, 2015 HK\$'000	Year ended 31st December, 2014 HK\$'000
Gross rental and hotel revenue	1,021,939	957,773	973,479	1,001,720	1,000,711
Net rental and hotel income	990,606	927,141	943,887	971,594	971,371
Profit/(loss) before tax and distributions to Unitholders	2,351,413	2,594,515	684,694	(1,406,775)	357,753
Profit/(loss) for the year, before distributions to Unitholders	2,251,664	2,488,325	563,980	(1,527,821)	238,454
Distributable income for the year attributable to Unitholders	<u>489,223</u>	<u>473,038</u>	<u>511,362</u>	<u>550,334</u>	<u>532,924</u>
Total distributions per Unit	<u>HK\$0.150</u>	<u>HK\$0.145</u>	<u>HK\$0.154</u>	<u>HK\$0.154</u>	<u>HK\$0.162</u>

Summary of the assets and liabilities

	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Non-current assets:					
Property, plant and equipment	709,000	656,000	590,000	592,000	691,000
Investment properties	26,994,000	25,136,000	21,632,000	21,480,000	23,428,000
Current assets	<u>278,841</u>	<u>166,305</u>	<u>155,334</u>	<u>118,418</u>	<u>168,502</u>
Total assets	<u>27,981,841</u>	<u>25,958,305</u>	<u>22,377,334</u>	<u>22,190,418</u>	<u>24,287,502</u>
Current liabilities	590,535	2,990,055	330,351	220,888	234,870
Non-current liabilities	<u>10,076,790</u>	<u>7,483,592</u>	<u>8,609,039</u>	<u>8,598,341</u>	<u>8,550,062</u>
Total liabilities	<u>10,667,325</u>	<u>10,473,647</u>	<u>8,939,390</u>	<u>8,819,229</u>	<u>8,784,932</u>
Net assets attributable to Unitholders	<u>17,314,516</u>	<u>15,484,658</u>	<u>13,437,944</u>	<u>13,371,189</u>	<u>15,502,570</u>
Net asset value per Unit attributable to Unitholders	<u>HK\$5.315</u>	<u>HK\$4.754</u>	<u>HK\$4.125</u>	<u>HK\$4.105</u>	<u>HK\$4.759</u>





www.RegalREIT.com