



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
2019

Managed by



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



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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
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 2019 Annual Report of Regal Real Estate Investment Trust.

FINANCIAL RESULTS

For the year ended 31st December, 2019, Regal REIT recorded a consolidated loss before distributions to Unitholders of HK\$2,102.3 million, as compared to a profit of HK\$2,251.7 million for the financial year 2018. However, it should be noted that the consolidated loss recorded for 2019 included a fair value loss of HK\$2,522.6 million arising from the decrease in the appraised values of Regal REIT's investment property portfolio, after accounting for the additional capital expenditures incurred for the year, while a fair value gain of HK\$1,789.1 million was recorded for 2018. If the effects of the fair value changes are excluded, the core profit before distributions to Unitholders for 2019 would amount to HK\$420.3 million, a decrease of 9.1% as compared to HK\$462.5 million for the preceding year.

Total distributable income for the year under review amounted to HK\$445.2 million, which was 9.0% lower than the HK\$489.2 million reported in 2018. The decrease in the total distributable income was primarily attributable to the reduction in the overall income from the property portfolio owned by Regal REIT as well as the increase in the financing costs incurred due to the rise in the Hong Kong Interbank Offered Rate (HIBOR) during the year, 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\$0.056 per Unit for the year ended 31st December, 2019 (2018: HK\$0.076). Together with the interim distribution of HK\$0.068 (2018: HK\$0.074) per Unit paid, this brings the total distributions per Unit for 2019 to HK\$0.124 (2018: HK\$0.150). Total distributions for the year, including both the interim and final distributions, will amount to HK\$403.9 million and represent a payout ratio of 90.7% of the total distributable income for 2019.

HOTEL MARKET AND BUSINESS REVIEW

Based on a recent publication by the World Bank Group, global growth decelerated markedly in 2019, with annual growth rate weakening to 2.4 percent, which was the lowest rate of expansion in many years. Growth in the United States also decelerated amid slowing investments and exports, as rising tariffs have increased trade costs. In China, the growth in its Gross Domestic Product (GDP) slowed down to 6.1 percent in 2019, albeit still within the targeted range of 6 to 6.5 percent. In Hong Kong, due to the significant adverse impact caused by the local social unrest since June last year and, as exacerbated by the unfavourable economic climate globally, the local economy entered into recession in the second half of the year. Hong Kong's GDP overall contracted by 1.2 percent in real terms in 2019, which was its first annual contraction since 2009.

Management has forewarned in the Interim Report of Regal REIT issued in August 2019 that the social events which were taking place in Hong Kong were seriously affecting many different trades, particularly the tourism related, retail and food and beverage business sectors, and could adversely impact the income and market valuations of Regal REIT's properties. Nevertheless, on a relatively positive note for Regal REIT, as the market rentals for all of the hotels that are leased to the operating subsidiary of Regal Hotels International Holdings Limited ("RHIHL") were determined annually in advance, while the iclub Ma Tau Wai Hotel is still within the initial fixed rental period, the overall rental income for Regal REIT for 2019 as a whole was not substantially affected by the market downturn in the second half of the year. The leasing structure for the determination of the annual rents for these hotels should continue to benefit Regal REIT in buffering against any unexpected business adversity in the local hotel market within a particular year.

Although the number of total visitors to Hong Kong maintained growth in the first six months of 2019, the situation was abruptly reversed in the second half. As a result, visitor arrivals to Hong Kong for the whole year of 2019 only amounted to 55.9 million, which was a negative growth of 14.2% year-on-year. Total overnight visitors amounted to 23.8 million and represented a decrease of 18.8% year-on-year. Of the total 43.8 million visitors from Mainland China, 16.2 million were overnight visitors, dropping by 18.5% year-on-year. Meanwhile, the number of overnight visitors from the traditional long haul and other short haul markets (excluding Mainland China) also recorded year-on-year declines of 15.2% and 22.1%, respectively.

Based on a hotel survey published by the Hong Kong Tourism Board, the average hotel occupancy rate for all the surveyed hotels in different categories slid from 86% in July to 61% in the month of December 2019, ending in a year-round average of 79.0%, representing a decrease of 12.0 percentage points from 2018. At the same time, the industry-wide average room rate also contracted by 12.4%, resulting in a year-on-year decrease of 23.9% in average Revenue per Available Room (RevPAR).

Apart from the Regal Airport Hotel which was able to maintain satisfactory performance throughout the year due to its unique market positioning and while the airline traffic was still operating normally, the hotel room as well as the food and beverage businesses of the other four Initial Hotels have dropped substantially in the second half of 2019, as compared with the levels attained in the first six months. For the year 2019 as a whole, the five Initial Hotels overall recorded a combined average occupancy of 77.9%, as compared to 88.7% last year, while their combined average room rate decreased by 9.3%, with combined average RevPAR consequently declining by 20.3% year-on-year, although still slightly better than the market average.

The total net property income generated by the five Initial Hotels for the year amounted to HK\$606.9 million, which was 30.7% lower than the HK\$875.7 million in 2018. As the aggregate net property income was below the aggregate annual base rent of HK\$776.0 million for the year, no variable rent was earned. Under the market rental review completed in November 2019, the aggregate annual base rent for the five Initial Hotels for 2020 was determined to be HK\$710.0 million, which was HK\$66.0 million below the aggregate base rent for 2019, 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.

Apart from the five Initial Hotels under the “Regal” brand, Regal REIT also owns a portfolio of select-service hotels under the “iclub” brand name, developed by the RHIHL group. Currently, there are four iclub Hotels owned by Regal REIT and operating in Hong Kong. Likewise, the businesses of these iclub Hotels in the second half of 2019 have met with intense pressure. The first iclub Hotel was the iclub Wan Chai Hotel, which is self-operated by Regal REIT and managed by Regal Hotels International Limited (“RHI”), the hotel management subsidiary of RHIHL. The average occupancy rate for this hotel for year 2019 was 83.7%, as compared to 95.9% in 2018, while its average room rate also dropped by 19.3%, with RevPAR consequently declining by 29.6% year-on-year.

Two other iclub Hotels, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel, have also been leased to the same lessee of RHIHL. Their combined annual average occupancy rate for the year was 81.4%, 11.1 percentage points below the level in 2018, while their combined average room rate decreased by 18.9%, resulting in a decline of 28.6% in their average combined RevPAR year-on-year. For the year 2019, these two hotels generated aggregate rental receipts of HK\$92.0 million, representing the base rents under their respective market rental packages. As the net property income for each of these two hotels was below its base rent level, no variable rent was earned. Similar to the Initial Hotels, their rental packages are determined annually by an independent professional property valuer. The initial fixed terms of the leases for these two hotels expired on 31st December, 2019 and Regal REIT has exercised in May 2019 the option granted to it in the respective lease agreements to extend the two leases for another five years till the end of 2024. Under the market rental reviews concluded in November 2019, the base rent for 2020 for each of the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel was determined to be HK\$41.0 million, a reduction of HK\$5.0 million in each case below the annual base rent for 2019, 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 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, which assures stable returns to Regal REIT during the hotel’s start-up period. The lease will be extendable to 31st December, 2027 at the option of Regal REIT, with rentals to be based on annual market rental reviews. For the year under review, this hotel recorded cash rental receipts of HK\$58.9 million. The iclub Ma Tau Wai Hotel attained an average occupancy rate of 66.4% for the year 2019.

As reported previously, Regal REIT concluded the refinancing of a 5-year term loan in the principal amount of HK\$440.0 million, which was secured by a mortgage over the iclub Wan Chai Hotel in July 2019. Through this refinancing arrangement, Regal REIT was able to achieve a reduction in the loan interest margin, which will generate some savings on Regal REIT’s future financing costs.

At the extraordinary general meeting (the “EGM”) held on 15th January, 2020, the independent Unitholders approved, among others, the extensions and amendments of the existing lease agreements to extend the leases for the Regal Airport Hotel to 27th December, 2028 and the other four Initial Hotels for another ten years to 31st December, 2030, with the market rental packages for their extended terms continuing to be determined annually by a jointly appointed independent professional property valuer. At the same EGM, the independent Unitholders also approved a new 10-year hotel management agreement for the iclub Wan Chai Hotel with RHI, which will run through to 31st December, 2030.

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.

BUSINESS OUTLOOK

The outbreak of the novel coronavirus in recent months is causing severe disruption to overall business activities, consumer spending as well as the global supply chains. The economic growth in China is expected to further moderate, due to the slowdown in its labour productivity growth and external headwinds. In the wake of added uncertainties, the central government of China has devised and implemented many supportive measures to bolster its economy, including cutting taxes, lowering interest rates and increasing public investment spending.

In Hong Kong, the businesses in the consumer and tourism related sectors during the first few months of this year remained hard hit by the economic downturn and the coronavirus pandemic, with rising unemployment rates being recorded for these market sectors. Apart from the internal social problems yet to be resolved, the spread of the coronavirus and the potential trade tensions between China and the United States could well continue to affect the global economy and financial markets and adversely impact Hong Kong's economic performance. With a view to easing the economic slowdown and rising unemployment, the government of Hong Kong has proposed a number of initiatives to assist businesses and to boost consumer spending.

As mentioned above, the annual base rents for the five Initial Hotels, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel for the year 2020 have been determined to be HK\$792.0 million, in aggregate, which is only approximately 8.8% lower than the rental levels in 2019, while the iclub Ma Tau Wai Hotel is still under the initial fixed rental period. Accordingly, the income for Regal REIT for 2020 is, to a very significant extent, protected from the prevailing adverse market turbulences. However, if the current adverse situation does not improve in time, the market valuations of Regal REIT's properties for 2020 as well as their market rental determinations for 2021 will be further impacted.

Looking into the longer term, as a key business services and logistics hub in the Asian Pacific region, Hong Kong is still well placed to benefit from the tremendous business opportunities available under the "Belt and Road" initiative, the RMB internationalisation and the development of the Guangdong-Hong Kong-Macao Greater Bay Area. When the coronavirus pandemic is over and the social unrest in Hong Kong gradually subsides, the economy of Hong Kong should be resilient enough to rebound and to regain its growth momentum.

The REIT Manager continues to be committed to maintaining Regal REIT's leading position as one of the pre-eminent hotel owners in Hong Kong. It will also continue to closely monitor the performance of its existing properties and to evaluate accretive investment opportunities if market circumstances are considered appropriate.

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

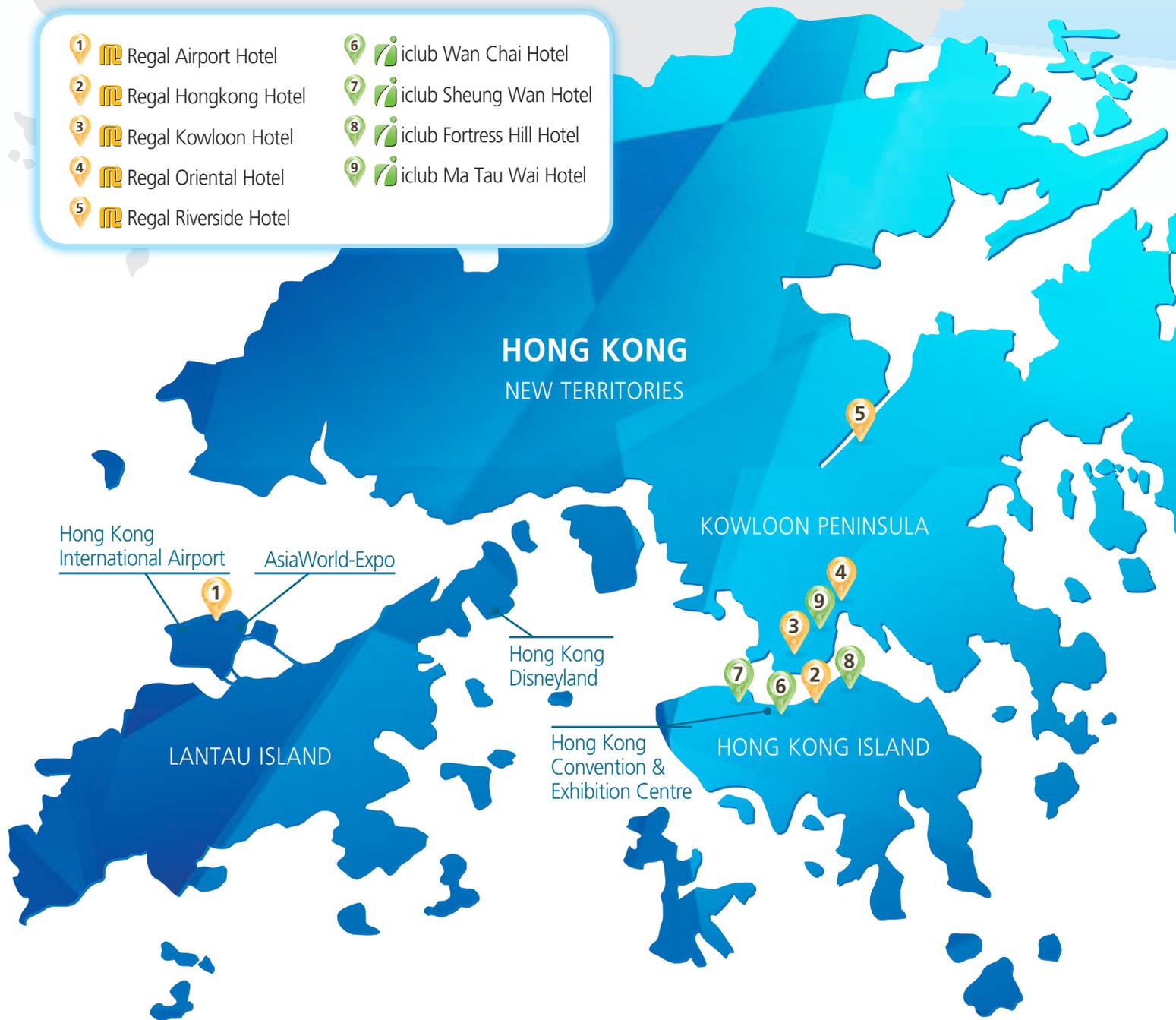
Lo Yuk Sui
Chairman

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

Hong Kong, 26th March, 2020

PROPERTY PORTFOLIO

Location of the Hotel Properties in Hong Kong



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



Café Aficionado



Honeymoon Suite



Indoor Swimming Pool

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

- 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) and 3D Projection Mapping Technology
- 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 twelve consecutive years (2008-2019)
- 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 Airport Hotel in Asia-Pacific by Business Traveller Asia-Pacific Magazine for seventeen consecutive years (2001-2017)
- Best Airport Hotel Asia Pacific by Travel Weekly Asia for three consecutive years (2017-2019)
- Certificate of Excellence by TripAdvisor (2016-2019)
- Gold Benchmarking Certificate by EarthCheck (2018)
- 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)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014-2016)

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

REGAL HONGKONG HOTEL



Executive Club Room



Alto 88



Hotel Lobby

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 81 tastefully appointed guestrooms and suites with a private lounge
- Gold Benchmarking Certificate by EarthCheck (2018-2020)
- MASTERCHEF Recommendation Restaurant 2019 – Alto 88 (2019)
- Best Business Hotel by Ctrip (2019)
- Certificate of Excellence by TripAdvisor (2019)
- Caring Company 10 Years+ Award by The Hong Kong Council of Social Service (2018-2019)
- Alto 88 achieved Italian Hospitality Seal by Ospitalità Italiana as certified restaurant (2014-2019)
- Alto 88 awarded Certificate of Excellence by TripAdvisor (2018)
- Alto 88 and Regal Palace voted as Hong Kong's Best Restaurant by Hong Kong Tatler Magazine (2002-2017)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014-2016)
- Customer Recommended Hotel Award by eLong.com (2016)

REGAL KOWLOON HOTEL



Deluxe Suite



Regal Court



Versailles Ballroom

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

- 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 K11 Musea, Hong Kong Science Museum, Hong Kong Space Museum, Hong Kong Museum of Art, Hong Kong Cultural Centre, Clock Tower and the Star Ferry, etc.
- Hong Kong Green Organisation Certificate - Carbon Reduction Certificate (2019)
- MASTERCHEF Recommendation Restaurant 2019 - Regal Court (2019)
- 2-star EatSmart Restaurant by The Department of Health (2019)
- Bronze Medals in Chinese Hot Cooking and Western Hot Cooking Categories by Hong Kong International Culinary Classic (2019)
- Gold Benchmarking Certificate by EarthCheck (2018)
- Caring Company Award by The Hong Kong Council of Social Service (2018-2019)
- 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 and 2019)
- Silver Award in Rakuten Travel Award by Rakuten Travel (2018)

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

REGAL ORIENTAL HOTEL



Presidential Suite



Oriental Ballroom



Avanti Pizzeria

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
- Halal Certificate by The Incorporated Trustees of The Islamic Community Fund of Hong Kong (2013-2019)
- Indoor Air Quality Certificate – Excellent Class by Environmental Protection Department (2014-2019)
- Caring Company 5 Years+ Award by The Hong Kong Council of Social Service (2014-2019)
- Carbon Reduction Certificate by the Environmental Campaign Committee (2016-2019)
- Gold Benchmarking Certificate by EarthCheck (2018-2019)
- "Good Employer Charter" Certificate by Labour Department (2018-2019)
- 10-year QTS Merchant Recognition for Café Neo and The China Coast Pub + Restaurant by Hong Kong Tourism Board (2019)
- CLP GREEN^{PLUS} Award 2018 – Outstanding Certificate by CLP Power Hong Kong Limited (2017-2018)
- Certificate of Appointment by Christian Action Training Services Division – Trade Advisory Committee (Hotel) (2017-2018)

REGAL RIVERSIDE HOTEL



Premier Room



Scene Bar



Bauhinia Room

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 comprehensive facilities and attentive services 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 (2018-2019)
- 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 (2018-2019)
- 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 (2012-2019)
- Certificate of Appreciation by Friends of the Earth (HK)'s Used Clothes Recycling Program (2018)
- Squarefoot Serviced Apartment Awards 2019 - Best Guest Experience (2019)
- Quality Water Supply Scheme for Buildings - Fresh Water (Management System) (Blue) Certificate by Water Supplies Department (2019)

iclub WAN CHAI HOTEL



iBusiness Executive



iResidence 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 continental breakfast and coffee & tea throughout the day in iLounge
- 24-hour self-service laundry and drying facilities
- 24-hour complimentary use of computers in iEngage
- 24-hour complimentary use of fitness facilities in Sweat Zone
- A completely smoke-free hotel
- Certificate of Excellence by TripAdvisor (2019)
- 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)

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

iclub SHEUNG WAN HOTEL



iPlus Premier



iLounge



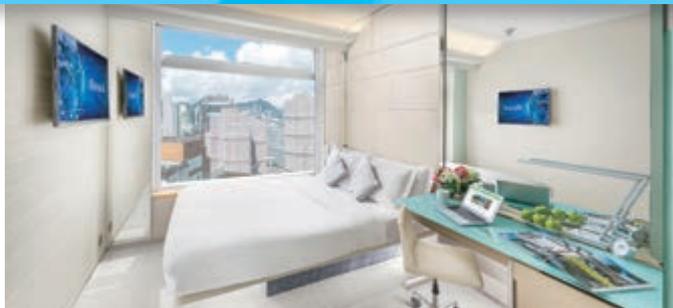
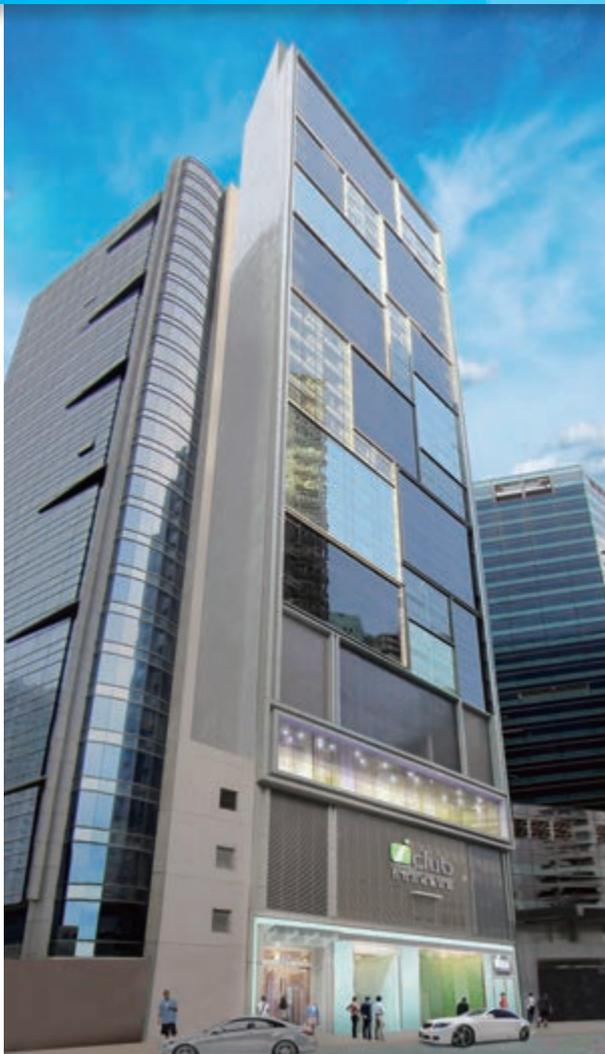
Hotel Lobby

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 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 continental breakfast and coffee & tea throughout the day in iLounge
- 24-hour self-service laundry and drying facilities
- 24-hour complimentary use of computers in iEngage
- 24-hour complimentary use of fitness facilities in Sweat Zone
- A completely smoke-free hotel
- Traveller Review Awards by Booking.com (2020)
- Loved by Guests Award by Hotels.com (2020)
- Certificate of Excellence by TripAdvisor (2019)
- 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 Awards by Booking.com (2015-2018)

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

iclub FORTRESS HILL HOTEL



iBusiness Premier



iLounge



Sweat Zone

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 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 continental breakfast and coffee & tea throughout the day in iLounge
- 24-hour self-service laundry and drying facilities
- 24-hour complimentary use of computers in iEngage
- 24-hour complimentary use of fitness facilities in Sweat Zone
- A completely smoke-free hotel
- Certificate of Excellence by TripAdvisor (2019)
- Carbon Reduction Certificate by Hong Kong Green Organisation Certification (2018)
- Silver Benchmarking Certificate by EarthCheck (2018)
- 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



iBusiness Premier



Hotel Lobby



Carpark

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
- MTR - Shatin to Central Link which is expected to be opened by 2021, 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 continental breakfast in iLounge
- 24-hour self-service laundry and drying facilities
- 24-hour complimentary use of computers 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)

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, 2019.

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, 2019, 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”). On 20th December, 2019, Regal REIT and the RHIHL Lessee entered into supplemental agreements amending each of the Initial Hotels Lease Agreements to extend the lease term of (a) Regal Airport Hotel for another eight-year-less-four-day to 27th December, 2028; and (b) each of Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel for another ten years to 31st December, 2030 together with the inclusion of a non-fault based early termination provision by the lessor. The market rental packages for the extended term of each of the Initial Hotels will continue to be determined annually by a jointly appointed independent professional property valuer. Such extended term for each of the Initial Hotels Lease Agreements was approved by the independent Unitholders at an extraordinary general meeting held on 15th January, 2020.

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 20th December, 2019, Regal REIT entered into a new hotel management agreement (the “New Wan Chai Hotel Management Agreement”) with the Hotel Manager on substantially the same terms as the current Wan Chai Hotel Management Agreement, the key differences being: (a) the operating term shall be for ten years from 1st January, 2021 to 31st December, 2030; and (b) the inclusion of a non-fault based early termination provision.

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. On 17th May, 2019, Regal REIT exercised its option to extend the lease term for a further five year period, commencing from 1st January, 2020 and expiring on 31st December, 2024 (both days inclusive). 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. On 17th May, 2019, Regal REIT exercised its option to extend the lease term for a further five year period, commencing from 1st January, 2020 and expiring on 31st December, 2024 (both days inclusive). 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.

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 2028 (for Regal Airport Hotel) and 2030 (for the other four Initial Hotels), respectively, 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 2028 (for Regal Airport Hotel) and 2030 (for the other four Initial Hotels), respectively, 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 2019 from the RHIHL Lessee in accordance with the IH Market Rental Package for 2019.

Base Rent

For the year 2019, the aggregate Base Rent for the Initial Hotels was determined at HK\$776.0 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 2019, 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 2020

An independent professional property valuer, Ms. Stella Ho, was jointly appointed by the lessors and the RHIHL Lessee in June 2019 to conduct rent reviews for the Initial Hotels for 2020. According to the determination of the IH Market Rental Package for 2020, the aggregate amount payable by the RHIHL Lessee as Base Rent was determined to be HK\$710.0 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 2020. 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, 2020, for an aggregate amount of HK\$177.5 million, which is equivalent to three months' aggregate Base Rent of the Initial Hotels for 2020, issued by a licensed bank in Hong Kong. Details of the IH Market Rental Package for 2020 can be referred to in an announcement published by the REIT Manager on 29th November, 2019.

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 and the extended lease term, 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, 2024.

Regal REIT received fixed rentals for the leasing of the iclub Sheung Wan Hotel for the first three years of the lease term at 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 annually for each of the remaining periods of the lease term 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 2019

According to the determination of SW Market Rental Package for 2019, the Base Rent 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 has provided a third party guarantee as a security deposit 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.

SW Market Rental Package for 2020

The independent professional property valuer, Ms. Stella Ho, was jointly appointed in June 2019 to determine the SW Market Rental Package for 2020. According to the determination of the SW Market Rental Package for 2020, the Base Rent to be payable by the RHIHL Lessee is HK\$41.0 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, 2020, for an amount of HK\$10.585 million, which is equivalent to three months' Base Rent together with rates and Government rent of the iclub Sheung Wan Hotel for 2020. Details of the SW Market Rental Package for 2020 can be referred to in an announcement published by the REIT Manager on 29th November, 2019.

iclub Fortress Hill Hotel – Rental Structure and Market Rental Package

Pursuant to the FH Lease Agreement and the extended lease term, 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, 2024.

Regal REIT received fixed rentals for the leasing of the iclub Fortress Hill Hotel for the first three years of the lease term at 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 annually for each of the remaining periods of the lease term 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 2019

According to the determination of FH Market Rental Package for 2019, the Base Rent payable by the RHIHL Lessee was HK\$46.0 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. The RHIHL Lessee has provided a third party guarantee as a security deposit 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.

FH Market Rental Package for 2020

Concurrent with the appointment as independent professional property valuer for the SW Market Rental Package 2020, Ms. Stella Ho was also appointed in June 2019 to determine the FH Market Rental Package for 2020. According to the determination of the FH Market Rental Package for 2020, the Base Rent to be payable by the RHIHL Lessee is HK\$41.0 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, 2020, for an amount of HK\$10.552 million, which is equivalent to three months' Base Rent together with rates and Government rent of the iclub Fortress Hill Hotel for 2020. Details of the FH Market Rental Package for 2020 can be referred to in an announcement published by the REIT Manager on 29th November, 2019.

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\$58.9 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\$36.3 million was contributed to the FF&E reserve with corresponding expenditures of HK\$37.6 million being recorded for the purposes intended.

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.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2019 are set out in the consolidated financial statements.

Review of the Economic Environment in 2019

According to the Global Economic Prospects report issued by the World Bank Group in January 2020, global growth decelerated markedly in 2019 with continued weakness in global trade and investment. This weakness was widespread, affecting both advanced economies, particularly the Euro Area, and emerging market and developing economies (EMDEs). Various key indicators of economic activity declined in parallel, approaching their lowest levels since the global financial crisis. In particular, global trade in goods was in contraction for a significant part of 2019, and manufacturing activity slowed markedly over the course of the year; recent high-frequency readings suggest some tentative stabilisation of manufacturing output at weak levels. To a lesser extent, services activity also moderated. A broad range of economies have experienced feeble growth, with close to 90 percent of advanced economies and 60 percent of EMDEs going through varying degrees of deceleration last year¹.

Growth in the U.S. has decelerated amid slowing investment and exports. Notwithstanding the recent trade deal with China, rising tariffs have increased trade costs, while policy uncertainty has weighed on investment and confidence. As in many other advanced economies, the U.S. manufacturing sector has been very weak. Support from tax cuts and changes in government spending are expected to fade this year and become a drag on growth thereafter. The forecast of 1.8% growth for 2020 is predicated on tariffs staying at planned levels, fiscal policy progressing as currently legislated, and the heightened degree of policy uncertainty gradually dissipating. Additional progress in U.S. - China trade negotiations that leads to a further reduction in trade policy uncertainty could result in higher-than-expected U.S. growth¹.

GDP growth in China reached 6.1%² in 2019 and growth has decelerated more than previously expected amid cooling domestic demand and heightened trade tensions. Trade policy uncertainty and higher tariffs on trade with the United States weighed on investor sentiment for most of 2019. Industrial production growth has reached multiyear lows. In response to the deceleration in activity, monetary policy has become more accommodative, but regulatory tightening to reduce non-bank lending has continued. The government has also stepped up some fiscal measures, including tax cuts and support for local governments for public investment spending. A permanent and lasting resolution of trade disputes with the United States that builds upon recent progress could bolster China's growth prospects and reduce reliance on policy support¹.

For 2019 as a whole, Hong Kong's GDP contracted by 1.2% in real terms over 2018. This was the lowest record for the past decade³. As per a research report from Bank of China (Hong Kong) Limited, the Hong Kong economy suffered a severe downturn as a result from both internal factors and external shock, such as: a) the social unrest arising from the Extradition bill was the major cause for the economic downturn, b) the global slowdown and trade tensions affected Hong Kong's external demand, and c) unemployment rate surged rapidly amid the significant pressure on the labour market⁴.

¹ Source: Publications, World Bank Group, "Global Economic Prospects –Slow Growth, Policy Challenges", January 2020.

² Source: Press Release, National Bureau of Statistics of China, "National Economy was Generally Stable in 2019 with Main Projected Targets for Development Achieved", 17th January, 2020.

³ Source: Economic Reports, www.hkeconomy.gov.hk, "2019 Economic Background and 2020 Prospects", 26th February, 2020.

⁴ Source: Market Information, Bank of China (Hong Kong) Limited, "2020 Hong Kong Economic Outlook", December 2019.

Visitor Arrivals in Hong Kong, 2019 versus 2018⁵

Visitors to Hong Kong by Geographical Regions	2019 (Percentage of total visitors)	2019 (No. of visitors)	2018 (No. of visitors)	Variance (No. of visitors)	Variance (%)
Mainland China	78.29%	43,774,685	51,038,230	(7,263,545)	(14.2%)
South & Southeast Asia	5.44%	3,040,518	3,571,671	(531,153)	(14.9%)
North Asia	3.79%	2,121,376	2,709,184	(587,808)	(21.7%)
Taiwan	2.75%	1,538,915	1,925,234	(386,319)	(20.1%)
Europe, Africa & the Middle East	3.55%	1,985,304	2,231,983	(246,679)	(11.1%)
The Americas	2.86%	1,600,755	1,872,540	(271,785)	(14.5%)
Australia, New Zealand & South Pacific	1.10%	612,276	703,789	(91,513)	(13.0%)
Macau SAR/Not identified	2.22%	1,238,780	1,094,924	143,856	13.1%
Totals	100%	55,912,609	65,147,555	(9,234,946)	(14.2%)
Overnight visitors included in above	42.5%	23,752,359	29,262,701	(5,510,342)	(18.8%)

Due to the social unrest events, Hong Kong's tourism market experienced a very difficult year in 2019. The number of visitor arrivals dropped significantly by approximately 9.2 million to 55.9 million, showing a decrease of 14.2% 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 decreased and recorded a negative growth rate of 14.2%, with arrivals aggregating approximately 43.8 million, representing 78.3% of the total visitor arrivals to Hong Kong in 2019.

Arrivals from short haul markets comprising other Asian regions (including North Asia, South & Southeast Asia, Taiwan and Macau) were reported as 7.9 million and accounted for 14.2% of total arrivals, representing a negative growth rate of 14.6% as compared to 2018.

For the long haul markets, a negative growth rate of 12.7% was recorded, with total arrivals of approximately 4.2 million. Visitors from the Americas displayed a decrease with a negative growth rate of 14.5% and represented 2.9% of the total number of visitors. Overall, visitor arrivals from the European, Africa and the Middle East markets also recorded a negative growth rate of 11.1%; with the visitor number reaching approximately 2.0 million and accounting for 3.6% 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 23.8 million, representing 42.5% of total arrivals and showing a decrease of 18.8% year-on-year.

⁵ Source: Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Dec 2019", January 2020; "Visitor Arrival Statistics – Dec 2018", January 2019; the REIT Manager.

Review of Hotel Room Supply in Hong Kong in 2019 and Forecast for 2020

In 2019, the hotel room supply in Hong Kong reported growth of 3.2% over 2018. This represented an annual increase of 2,624 units from 81,465 to 84,089 rooms provided by hotel properties with number increasing from 291 to 303. A continuing increase in the new room supply by 4,192 units in 2020 with 17 new hotels is anticipated. By the end of 2020, it is projected that the hotel room supply will reach 88,281 with an increase of approximately 5.0% 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 (2019 versus 2018) ⁷					
	Room Occupancy Rates		Average Room Rates		RevPAR	
	2019	2018	2019	2018	2019	2018
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	74	89	1,982	2,154*	1,467	1,917
High Tariff B	79	91	992	1,177*	784	1,071
Medium Tariff	82	93	645	797	529	741
All Hotels	79	91	1,206	1,376*	953	1,252

* revised figures by the Hong Kong Tourism Board

In 2019, the overall hotel occupancy rate was reported to be 79.0% which was down by 12.0 percentage points when compared to 2018. The industry-wide average room rate recorded a decline of 12.4% year-on-year to HK\$1,206 per night. The resulting effect led to negative growth of 23.9% on the industry-wide RevPAR or a decrease of HK\$299 year-on-year to HK\$953.

Performance Highlights of Regal REIT

For the year under review, Hong Kong hotel industry faced unprecedented pressure stemming from social unrest and continuous protest activities since June 2019, resulting in subsequent travel alerts being issued by many countries. These disruptions tremendously deterred the number of visitors to Hong Kong during the third and fourth quarters of 2019. Under this prolonged social unrest situation, all hotels in Hong Kong suffered from significant drops in occupancy rates and average room rates.

In the Interim Report of Regal REIT issued in August 2019, it forewarned that the social events that were taking place in Hong Kong were seriously affecting many different trades, particularly, the tourism related, retail and food and beverage business sectors, and could adversely impact on the future income and market valuations of Regal REIT's properties. Nevertheless, on a relatively positive note, as the market rentals for all of the hotels that are leased to the lessee of RHIHL are determined annually in advance, while the iclub Ma Tau Wai Hotel is still enjoying the initial fixed rental period, the overall rental income for Regal REIT for 2019 as a whole was not materially affected by the market downturn in the second half of the year. The leasing structure for the determination of the annual rents for these hotels should continue to benefit Regal REIT in buffering against any unexpected short term business fluctuations in the local hotel market.

⁶ Source: Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Dec 2019", February 2020; the REIT Manager.

⁷ Source: Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Dec 2019", January 2020; the REIT Manager.

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. As a reflection of the aforesaid situation and without exception for Regal REIT's portfolio, the aggregate property valuation of Regal REIT's property portfolio was valued at HK\$25,131.0 million as at 31st December, 2019, representing a decrease of HK\$2,572.0 million as compared to the valuation of HK\$27,703.0 million as at 31st December, 2018.

The financial performance of Regal REIT with regard to operating results and net asset value rely on the underlying performances 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.

On 11th March, 2020, the World Health Organization (WHO) made an assessment that the coronavirus disease (COVID-19) could be characterized as a pandemic⁸. The major travel bans and quarantine enforcements being applied to travellers, if continuing for a prolonged period, can adversely and significantly impact hotel performances and valuations for 2020, as well as the related market rental determinations for 2021.

Performance of the Initial Hotels

Total hotel revenue, gross operating profit ("GOP"), NPI and statistics for the combined Initial Hotels for FY2019 versus FY2018 are set out below.

	FY2019 HK\$'million	FY2018 HK\$'million	Variance HK\$'million	Variance %
Operating Results				
Room revenue	1,102.3	1,378.9	(276.6)	(20.1%)
Food and beverage revenue	538.5	626.5	(88.0)	(14.0%)
Other income	31.7	32.0	(0.3)	(0.9%)
Total hotel revenue	1,672.5	2,037.4	(364.9)	(17.9%)
Operating expenses	(1,049.8)	(1,136.0)	86.2	7.6%
Gross operating profit	622.7	901.4	(278.7)	(30.9%)
Other expenses	(66.5)	(70.3)	3.8	5.4%
Net rental income	50.7	44.6	6.1	13.7%
Net property income	606.9	875.7	(268.8)	(30.7%)
Statistics				
Average room rate	HK\$994.23	HK\$1,096.74	(HK\$102.51)	(9.3%)
Occupancy rate	77.9%	88.7%	(10.8%)	(12.2%)
RevPAR	HK\$774.83	HK\$972.38	(HK\$197.55)	(20.3%)
Total available room nights	1,417,660	1,417,660	—	—
Occupied room nights	1,104,825	1,256,916	(152,091)	(12.1%)

⁸ Source: Speeches, World Health Organization, "WHO Director-General's opening remarks at the media briefing on COVID-19 – 11 March 2020", 11th March 2020.

During the year under review, total hotel revenue of the Initial Hotels achieved HK\$1,672.5 million (2018: HK\$2,037.4 million), representing a decrease of HK\$364.9 million or 17.9%. GOP and NPI attained HK\$622.7 million and HK\$606.9 million; or decreases of HK\$278.7 million and HK\$268.8 million, respectively, as compared to the previous year.

Benefited by the unique market positioning of the Regal Airport Hotel while the airline traffic was still operating normally, the five Initial Hotels leased to the RHIHL lessee as a whole managed to maintain steady performances during the year, amid an extremely competitive and difficult environment. Their combined average occupancy rate in 2019 was 77.9%, as compared to 88.7% last year, while their combined average room rate was HK\$994.23 for 2019, a decrease by 9.3% from HK\$1,096.74 for the preceding year, with combined RevPAR declining by 20.3% year-on-year, which was still better than the market average.

For 2019, the guest mix of the Initial Hotels was comprised mainly of 58% business travellers and 27% leisure travellers, with the business traveller proportion being higher than the 13% as reflected in the statistics published by the Hong Kong Tourism Board⁹. This proportion re-affirmed that the Initial Hotels continue to attract more business travellers in prime locations, while the iclub Hotels are well-received by the leisure-seeking travellers owing to their tech-savvy features and convenient locations. On the other hand, customer mix by origin recorded proportions of China, Asia and other regions of 35%, 46% and 19%, respectively.

Base Rent

According to the IH Market Rental Package for 2019, 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\$776.0 million, representing a monthly Base Rent of HK\$64.67 million.

Variable Rent

Regal REIT would be entitled to receive Variable Rent through the sharing of aggregate profits from the Initial Hotels' operations if that exceeds the annual Base Rent level. For the year under review, as the aggregate NPI from hotel operations of the Initial Hotels only amounted to HK\$606.9 million, which fell short of the aggregate Base Rent of HK\$776.0 million, therefore, no Variable Rent was receivable for the year.

Performance of iclub Wan Chai Hotel

The hotel portion of the iclub Wan Chai Hotel recorded an average room rate of HK\$890.35 in 2019, compared to the HK\$1,103.12 in 2018. With the year-round occupancy rate of 83.7% in 2019 (2018: 95.9%), the RevPAR achieved for 2019 was HK\$744.76 as compared to HK\$1,058.24 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, 2019, the hotel portion contributed gross hotel revenue of HK\$26.9 million and incurred operating costs and expenses of HK\$16.3 million.

⁹ Source: Research, Hong Kong Tourism Board, "Visitors' Purpose of Visit by Major Market Areas", January 2020; the REIT Manager.

Non-hotel portions

For the year ended 31st December, 2019, rental income of HK\$7.2 million was generated from the leasing of the non-hotel portions.

Performance of iclub Sheung Wan Hotel

For 2019, the iclub Sheung Wan Hotel achieved an overall occupancy rate of 84.2% with a year-round average room rate of approximately HK\$775.6.

Base Rent

According to the SW Market Rental Package for 2019, Regal REIT received Base Rent in the form of cash on a monthly basis. During the year, Regal REIT earned and received HK\$46.0 million.

Variable Rent

Regal REIT would be entitled to receive Variable Rent through the sharing of the excess profit from the iclub Sheung Wan Hotel's operations over the Base Rent. During the year, the NPI from hotel operations of the iclub Sheung Wan Hotel was HK\$31.0 million which fell short of the Base Rent of HK\$46.0 million and hence, no Variable Rent was receivable.

Performance of iclub Fortress Hill Hotel

For 2019, the iclub Fortress Hill Hotel achieved an overall occupancy rate of 79.4% with a year-round average room rate of approximately HK\$575.8.

Base Rent

According to the FH Market Rental Package for 2019, Regal REIT received Base Rent in the form of cash on a monthly basis. During the year, Regal REIT earned and received HK\$46.0 million.

Variable Rent

Regal REIT would be entitled to receive Variable Rent through the sharing of the excess profit from the iclub Fortress Hill Hotel's operations over the Base Rent. During the year, the NPI from hotel operations of the iclub Fortress Hill Hotel was HK\$27.0 million, which was below the Base Rent of HK\$46.0 million and therefore, no Variable Rent was receivable.

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 2019, the iclub Ma Tau Wai Hotel achieved an overall occupancy rate of 66.4% with a year-round average room rate of approximately HK\$521.9.

During the year under review, Regal REIT received rentals of HK\$58.9 million 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. Fixed rental income of HK\$61.1 million was recognised on the straight-line basis for the year ended 31st December, 2019.

Net Rental and Hotel Income

The aggregate net rental and hotel income for Regal REIT for the year ended 31st December, 2019 (as compared to the prior year) is set out below.

	2019		2018	
	HK\$'million	%	HK\$'million	%
Initial Hotels				
Base Rent	776.0	79.5	751.0	73.5
Variable Rent	–	–	62.3	6.1
Other income	12.3	1.3	11.4	1.1
iclub Sheung Wan Hotel				
Rental income	46.0	4.7	46.6	4.6
iclub Fortress Hill Hotel				
Rental income	46.0	4.7	44.0	4.3
iclub Ma Tau Wai Hotel				
Rental income	61.1	6.3	61.1	6.0
iclub Wan Chai Hotel				
Gross hotel revenue	26.9	2.8	38.3	3.7
Rental income	7.2	0.7	7.2	0.7
Gross rental and hotel income	975.5	100.0	1,021.9	100.0
Property operating expenses	(3.2)	(0.3)	(12.2)	(1.2)
Hotel operating expenses	(16.3)	(1.7)	(19.1)	(1.9)
Net rental and hotel income	956.0	98.0	990.6	96.9

During the year under review, net rental and hotel income represented 98.0% 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, 2019, Regal REIT's overall property portfolio was valued at HK\$25,131.0 million (31st December, 2018: HK\$27,703.0 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\$24,517.0 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\$614.0 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, 2019 and 31st December, 2018 are tabulated below.

Property	Location	31 Dec 2019 Valuation HK\$ million	31 Dec 2018 Valuation HK\$ million	% Change
<i>Initial Hotels:</i>				
Regal Airport Hotel	Lantau Island	2,915	3,250	-10.3%
Regal Hongkong Hotel	HK Island	4,262	4,724	-9.8%
Regal Kowloon Hotel	Kowloon	5,740	6,381	-10.0%
Regal Oriental Hotel	Kowloon	1,860	2,137	-13.0%
Regal Riverside Hotel	New Territories	5,084	5,431	-6.4%
		19,861	21,923	-9.4%
<i>iclub Hotels:</i>				
iclub Wan Chai Hotel	HK Island	828	930	-11.0%
iclub Sheung Wan Hotel	HK Island	1,530	1,660	-7.8%
iclub Fortress Hill Hotel	HK Island	1,532	1,700	-9.9%
iclub Ma Tau Wai Hotel	Kowloon	1,380	1,490	-7.4%
Overall property portfolio		25,131	27,703	-9.3%

The valuations of the property portfolio as at 31st December, 2019 were conducted by CBRE Limited ("CBRE"), the principal valuer of Regal REIT appointed by the Trustee for a term of three years commencing from December 2018 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 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.

Loan Financing

As at 31st December, 2019, Regal REIT had loan facilities aggregating HK\$11,303.0 million, with varying maturity terms, were comprised of: (a) term and revolving loan facilities of up to HK\$5,500.0 million secured by four of the five Initial Hotels; (b) a term loan facility of HK\$3,000.0 million secured by Regal Kowloon Hotel; (c) a term loan facility of HK\$440.0 million secured by the iclub Wan Chai Hotel; (d) term and revolving loan facilities of up to HK\$790.0 million secured by the iclub Sheung Wan Hotel; (e) term and revolving loan facilities of up to HK\$825.0 million secured by the iclub Fortress Hill Hotel; and (f) a term loan facility of HK\$748.0 million secured by the iclub Ma Tau Wai Hotel.

Financing for the Initial Hotels

On 12th September, 2016, Regal REIT, through wholly-owned subsidiaries, entered into a facility agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$1,000.0 million (the "2016 IH Facilities"), for a term of five years to September 2021. The 2016 IH Facilities are secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. The 2016 IH Facilities carry Hong Kong Interbank Offered Rate (HIBOR)-based interest margin and, as at 31st December, 2019, had an outstanding term loan facility of HK\$4,500.0 million and the full amount of the revolving loan facility had not been 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. This facility bears a HIBOR-based interest margin and has a term of five years to March 2023. As at 31st December, 2019, 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. On 19th July, 2019, a new 5-year term loan facility of HK\$440.0 million (the "2019 WC Facility") was granted by the same bank to early refinance the 2014 WC Facility. Most of the key terms remain unchanged while the new loan facility bears a lower interest margin with maturity in July 2024. As at 31st December, 2019, the outstanding amount on the 2019 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 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"). The 2018 SW Facilities bears a HIBOR-based interest margin with five years term to October 2023. As at 31st December, 2019, 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

On 29th November, 2018, Regal REIT, through a wholly-owned subsidiary, arranged another bilateral loan facility of up to HK\$825.0 million, comprised of a term loan facility of HK\$660.0 million and a revolving loan facility of up to HK\$165.0 million, secured by the iclub Fortress Hill Hotel (the "2018 FH Facilities"). The 2018 FH Facilities bears a HIBOR-based interest margin and have a term of five years to November 2023. As at 31st December, 2019, 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 September 2020 and bearing a HIBOR-based interest margin. As at 31st December, 2019, 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 HIBOR market experienced high volatility with 1-month HIBOR rate fluctuating within a wide range of around 0.914% per annum at the low end to around 2.994% per annum at the high end and was at 2.666% per annum as of 31st December, 2019¹⁰. At the year end date, 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, 2019, the gearing ratio of Regal REIT was 39.3% (2018: 35.7%), being the gross amount of the outstanding loans aggregating HK\$9,980.0 million, which takes into account: (a) the 2016 IH Facilities of HK\$4,500.0 million; (b) the 2018 RKH Facility of HK\$3,000.0 million; (c) the 2019 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\$25,370.3 million. The gearing ratio is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of HK\$120.2 million in unrestricted and HK\$76.0 million in restricted cash balances and bank deposits, and unutilised revolving loan facilities of HK\$1,323.0 million as at 31st December, 2019. 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, 2019, all nine Regal REIT's properties with an aggregate carrying value of HK\$25,131.0 million were pledged to secure bank loan facilities granted to Regal REIT.

¹⁰ Source: Hong Kong Dollar HIBOR Fixings 1-Month: Bloomberg 2019.01.01 to 2019.12.31.

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 2019

The Board of Directors of the REIT Manager has resolved to declare a final distribution of HK\$0.056 per Unit for the period from 1st July, 2019 to 31st December, 2019. Together with the interim distribution of HK\$0.068 per Unit for the period from 1st January, 2019 to 30th June, 2019, total distributions per Unit for 2019 will amount to HK\$0.124, representing a yield of 6.14% based on the Unit closing price of HK\$2.02 on the last trading day of 2019. The final distribution of HK\$0.056 per Unit will be payable to Unitholders on the Register of Unitholders on 18th May, 2020.

Total Distributable Income for the year ended 31st December, 2019 was HK\$445.2 million. Total distributions for the year, including the interim distribution of HK\$221.5 million and the final distribution of HK\$182.4 million, will amount to HK\$403.9 million or 90.7% of the Total Distributable Income for the year.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Wednesday, 13th May, 2020 to Monday, 18th May, 2020, 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, 12th May, 2020. The relevant distribution warrants are expected to be despatched on or about 27th May, 2020.

OUTLOOK FOR 2020

The International Monetary Fund (IMF) projected the global growth to rise from an estimated 2.9% in 2019 to 3.3% in 2020 and 3.4% for 2021. As per IMF's World Economic Outlook (WEO) published in January 2020, trade policy uncertainties, geopolitical tensions, and idiosyncratic stress in key emerging market economies continued to weigh on global economic activity—especially manufacturing and trade—in the second half of 2019. Intensifying social unrest in several countries posed new challenges, as did weather-related disasters—from hurricanes in the Caribbean, to drought and bushfires in Australia, floods in eastern Africa, and drought in southern Africa. Despite these headwinds, some indications emerged toward year-end that global growth may be bottoming out. Moreover, monetary policy easing continued into the second half of 2019 in several economies. Adding to the substantial support the easing provided earlier in 2019, its lagged effects should help global activity recover in early 2020¹¹.

Based on a recent research report by the Bank of China (Hong Kong) Limited, the US economy has entered a downward trend. The US GDP in the first three quarters increased at an annualised rate of 3.1%, 1.9% and 2.1%, evidencing a gradual slowdown. Market expectations showed that the slowdown in Q3 was milder than estimated, as the drop in corporate investment was offset by consumer spending and a rebound in exports. It eased the worries of economic recession by the financial markets. The National Association for Business Economics published a report suggesting that the slowing global growth and US trade policies caused the US GDP growth to decrease from 2.9% in 2018 to 2.4% in 2019, and further slow to 2.0% in 2020. These estimates are in line with the Fed's recent projections⁴.

For 2019 as a whole, the Hong Kong economy contracted by 1.2%. This was 4.1 percentage points lower than the 2.9% growth in 2018³, indicating the economy is in a recession. The unemployment rate (seasonally adjusted) of Hong Kong for the last quarter of 2019 was 3.3%. Business in the consumption-and tourism-related sectors (viz. retail, accommodation and food services) remained in the doldrums. The unemployment rate in these sectors combined stayed at a three-year high of 5.2%; and the underemployment rate rose visibly when compared to the preceding period, particularly for those working in food and beverage service activities. Employment in these sectors continued to record a sharp fall on a year-on-year basis¹².

Recently, the violence caused by the proposed Extradition bill abated but has not yet fully terminated. It will continue to be a major uncertainty for the Hong Kong economy in 2020. If the social unrest gradually cools down in the coming months, tourism, accommodation, and retail industries may slowly recover. However, if the social unrest continues and the violence escalates again, it will further pressure the tourism sector and domestic consumption⁴. On a positive note, the Hong Kong economy still enjoys several favourable factors for stability and growth. These include development opportunities for the private sector in Hong Kong from China's stable economic growth outlook during the process of accelerating transformation as well as China's efforts in attracting foreign investment through reform and opening-up⁴.

¹¹ Source: Publications, International Monetary Fund, "World Economic Outlook UPDATE – Tentative Stabilisation, Sluggish Recovery?", 20th January, 2020.

¹² Source: Press Release, Census and Statistics Department, "Unemployment and underemployment statistics for October – December 2019", 20th January, 2020.

The outbreak of the coronavirus disease (COVID-19) in December 2019 has brought extreme pressure and uncertainty to the global and local economies, particularly in the tourism and hotel related industries. On 11th March, 2020, the World Health Organization (WHO) made an assessment that COVID-19 could be characterized as a pandemic⁸. It is believed that global economies including Hong Kong, will be severely affected by the coronavirus disease possibly for most of 2020. According to 2020-2021 Budget, Hong Kong's economic growth is expected to reach between -1.5% to 0.5%¹³ in 2020 which indicates that the economy is under pressure for significant downward adjustments. If the current adverse situation does not improve in time, the market valuations of Regal REIT's properties for 2020 as well as their market rental determinations for 2021 will be further impacted.

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.

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.

¹³ Source: Budget Speech, The 2020-21 Budget, "Economic Outlook for 2020 and Medium-term Outlook", 26th February, 2020.

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 2019, 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	1,095	5.6%
Regal Hotels International Limited	Marketing fees	269	1.4%
Paliburg Estate Management Limited	Building management fees	632	3.2%
		<u>1,996</u>	<u>10.2%</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 2019 Environmental, Social and Governance Report of Regal REIT will be published as a separate report in due course.

ANNUAL GENERAL MEETING

The 2020 Annual General Meeting of Regal REIT will be convened on Monday, 18th May, 2020. 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 2019 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, 2020

DIRECTOR AND EXECUTIVE OFFICER PROFILES

DIRECTOR PROFILES

Mr. Lo Yuk Sui, aged 75, 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 49 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 40, 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 52, 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 25 years of business development, trading, property investment, development and management experience. 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 Silver Base Group Holdings Limited, Faithful Trading (H.K.) Ltd, Gome Home Appliances (HK) Limited and Chevalier Group.

Mr. Lam Man Lim (Alias: Simon), aged 63, 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 77, 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 committee for Melco International Development Limited, which is listed on the Hong Kong Stock Exchange. He also currently acts as an independent non-executive director and the chairman of the audit and risk committee for Melco Resorts & Entertainment Limited, which is listed on the NASDAQ. He continues to act as an independent non-executive director and the chairman of the audit and risk committee for Melco Resorts and Entertainment (Philippines) Corporation, which was delisted on the Philippine Stock Exchange on 11th June, 2019.

Mr. Donald Fan Tung, aged 63, 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 70, 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 for both 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 46, 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 65, 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 70, 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 74, 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 honorary 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, Far East Consortium International 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 and Lai Fung Holdings 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.

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.

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 – Finance • Executive Director – Asset Management
2. Key Business Line	<ul style="list-style-type: none"> • Executive Director – Finance • Executive Director – Asset Management • Manager – Property / Investment
3. Operational Control and Review	<ul style="list-style-type: none"> • Executive Director – Finance • Executive Director – Asset Management • Internal Auditor
4. Risk Management	<ul style="list-style-type: none"> • Internal Auditor
5. Finance and Accounting	<ul style="list-style-type: none"> • Executive Director – Finance • Accounting 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 – Finance • Executive 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 is responsible for the review of its composition regularly to ensure that the Board has the appropriate mix of expertise and experience, and that the Directors being appointed have the relevant expertise and experience in discharging their duties. In reviewing the Board composition, the Board considers the benefits of all aspects of diversity including but not limited to gender, age, cultural and educational background, ethnicity, professional knowledge and industry experience, in order to maintain an appropriate range and balance of skills, experience and background on the Board.

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

Subsequent to publication of the 2019 interim report of Regal REIT, the REIT Manager was informed of the following changes of Directors' information:

Names of Directors	Details of changes
Mr. Johnny Chen Sing Hung	- Retired as a non-executive director of Silver Base Group Holdings Limited, a company listed on the Hong Kong Stock Exchange, with effect from 25th September, 2019.
Mr. John William Crawford, JP	- Appointed as an independent non-executive director and the chairman of the audit committee of Melco International Development Limited, a company listed on the Hong Kong Stock Exchange, with effect from 13th September, 2019. - Continues to be an independent non-executive director and the chairman of the audit and risk committee of Melco Resorts and Entertainment (Philippines) Corporation, a company delisted on the Philippine Stock Exchange on 11th June, 2019.

Continuous Professional Development of Directors

During the year under review, the Directors have participated in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. In 2019, the REIT Manager arranged for Directors a seminar covering topics on, among others, the SFC regulatory update. The training received by the Directors during the year under review is summarised below:

Names 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	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	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, 2019 and the attendance rates of the individual Board members were as follows:

Names 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, four formal Audit Committee meetings of the REIT Manager were held during the year ended 31st December, 2019 to consider and review, among other things, the 2018 final results, the 2019 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:

Names of Audit Committee Members	Attendance/ No. of Meetings
John William Crawford, JP (Chairman of the Committee)	4/4
Bowen Joseph Leung Po Wing, GBS, JP	4/4
Kai Ole Ringenson	4/4
Abraham Shek Lai Him, GBS, JP	4/4
Kenneth Ng Kwai Kai	4/4

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

Three formal Disclosure Committee meetings of the REIT Manager were held during the year ended 31st December, 2019 to consider and review, among other things, the 2018 final results announcement, the 2018 annual report, the 2019 interim results announcement, the 2019 interim report and other corporate disclosure issues of Regal REIT. The attendance rates of the individual members were as follows:

Names of Disclosure Committee Members	Attendance/ No. of Meetings
John William Crawford, JP (Chairman of the Committee)	3/3
Johnny Chen Sing Hung	3/3
Simon Lam Man Lim	3/3
Donald Fan Tung	3/3
Kenneth Ng Kwai Kai	3/3
Kai Ole Ringenson	3/3

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, 2019 were HK\$1.9 million (2018: HK\$1.9 million) and HK\$0.9 million (2018: HK\$0.5 million), respectively. The non-audit services include interim review of the financial statements of the Group for the six months ended 30th June, 2019, 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, 2019.

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, 2019, 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, 2019.

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, 2019, in conjunction with Regal REIT's external auditor. This Annual Report was approved by the Board of the REIT Manager on 26th March, 2020.

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, 2019 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, 2019 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) CBRE Limited (“CBRE”), the 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 may be amended from time to time) with lease terms to expiry on 31st December, 2020. On 20th December, 2019, each of the Initial Hotel – Property Companies had entered into the supplemental lease agreement with the RHIHL Lessee to extend the leases (the “Lease Extensions/Amendments”) for the Regal Airport Hotel to 27th December, 2028 and the other four Initial Hotels, namely, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel, to 31st December, 2030, (together, the “Extended Period”), with the market rental packages for the Extended Period continuing to be determined annually by a jointly appointed independent professional property valuer. As a result, the total lease term of each Initial Hotels Lease Agreement is now from the Listing Date to 27th December, 2028 (for Regal Airport Hotel) and 31st December, 2030 (for the other four Initial Hotels). The above-mentioned supplemental lease agreements became effective upon the independent Unitholders’ approval having been obtained at the extraordinary general meeting of Regal REIT held on 15th January, 2020. References can be made to the related announcements dated 20th December, 2019 and 15th January, 2020 and the related circular to Unitholders dated 20th December, 2019, as published by the REIT Manager for further details of the Lease Extensions/Amendments. 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\$788.3 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 may be amended from time to time) (the “Initial Hotels Lease Guarantees”). The Initial Hotels Lease Guarantees also contain indemnities in respect of all guaranteed liabilities. On 20th December, 2019, the supplemental lease guarantees in respect of each Initial Hotels were entered into with the Trustee and RHIHL to make consequential amendments in light of the Lease Extensions/Amendments, so that RHIHL’s obligation to maintain a third party guarantee will cover the Extended Period.

(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. Due to the current Wan Chai Hotel Management Agreement will expire on 31st December, 2020, on 20th December, 2019, the iclub Wan Chai Hotel – Property Company entered into a new 10-year hotel management agreement for the iclub Wan Chai Hotel (the “New Wan Chai Hotel Management Agreement”) with the Hotel Manager on substantially the same terms as the current Wan Chai Hotel Management Agreement, the key differences being: (a) the operating term shall be for ten years from 1st January, 2021 to 31st December, 2030; and (b) the inclusion of a non-fault based early termination provision. The New Wan Chai Hotel Management Agreement was approved by the independent Unitholders at the extraordinary general meeting held on 15th January, 2020. References can be made to the related announcements dated 20th December, 2019 and 15th January, 2020 and the related circular to Unitholders dated 20th December, 2019, as published by the REIT Manager for further details of the New Wan Chai Hotel Management Agreement.

During the year, total management fees under the Wan Chai Hotel Management Agreement amounted to approximately HK\$1.1 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 (as may be amended from time to time). The term of the SW Lease Agreement was designated to expire on 31st December, 2019, which is extendable at the option of Regal REIT for a further five years. On 17th May, 2019, pursuant to the terms of the SW Lease Agreement, the iclub Sheung Wan Hotel – Property Company (as the Lessor) exercised the option granted to it to extend the lease term for another five years to 31st December, 2024. On 18th November, 2019, the iclub Sheung Wan Hotel – Property Company and the RHIHL Lessee entered into a new lease agreement for the iclub Sheung Wan Hotel (the “New SW Lease Agreement”) to formally effect the extension of the abovementioned 5-year lease term. Save for the extension of the lease term as mentioned above, all the other terms and conditions of the New SW Lease Agreement remained the same as those in the SW Lease Agreement. Reference can be made to the related announcement dated 17th May, 2019, as published by the REIT Manager for further details of the lease extension for the iclub Sheung Wan Hotel.

During the year, the market rental income under the SW Lease Agreement amounted to HK\$46.0 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 (as may be amended from time to time). The term of the FH Lease Agreement was designated to expire on 31st December, 2019, which is extendable at the option of Regal REIT for a further five years. On 17th May, 2019, pursuant to the terms of the FH Lease Agreement, the iclub Fortress Hill Hotel – Property Company (as the Lessor) exercised the option granted to it to extend the lease term for another five years to 31st December, 2024. On 18th November, 2019, the iclub Fortress Hill Hotel – Property Company and the RHIHL Lessee entered into a new lease agreement for the iclub Fortress Hill Hotel (the “New FH Lease Agreement”) to formally effect the extension of the abovementioned 5-year lease term. Save for the extension of the lease term as mentioned above, all the other terms and conditions of the New FH Lease Agreement remained the same as those in the FH Lease Agreement. Reference can be made to the related announcement dated 17th May, 2019, as published by the REIT Manager for further details of the lease extension for the iclub Fortress Hill Hotel.

During the year, the market rental income under the FH Lease Agreement amounted to HK\$46.0 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 (the “Premises”), 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.

Subsequent to the year under review, on 17th January, 2020, the iclub Wan Chai Hotel – Property Company entered into a new tenancy agreement with the RHIHL Tenant for the leasing of the Premises for a new 3-year term commencing on 20th January, 2020 (the “New Tenancy Agreement”), instead of exercising the option granted to the RHIHL Tenant to extend the current Tenancy Agreement, with the inclusion of a right for the RHIHL Tenant to early terminate the tenancy after a period of six months from 20th January, 2020 by serving a two months’ prior written notice.

Pursuant to the terms of the New Tenancy Agreement, a new rental of HK\$130,000 per calendar month (exclusive of air-conditioning charges, management fees, government rates and other outgoing expenses) will be payable monthly in advance. The RHIHL Tenant shall be entitled to an option to renew the New Tenancy Agreement for a further three years from the date of expiry of the New Tenancy Agreement at a market rent to be determined by the principal valuer of Regal REIT. Reference can be made to the related announcement dated 20th January, 2020, as published by the REIT Manager for further details of the New Tenancy Agreement.

During the year, total contractual lease income under the Tenancy Agreement amounted to approximately 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\$58.9 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\$104.9 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 extended its waiver term for 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.

On 15th January, 2020, the SFC further extended its waiver term for 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 (i) 27th December, 2028 for Regal Airport Hotel; and (ii) 31st December, 2030 for the other four Initial Hotels) or termination of such agreements, whichever is earlier. Reference can be made to the related announcement dated 15th January, 2020 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 New SW Lease Agreement, the SW Lease Guarantee, the SW Hotel Management Agreement, the FH Lease Agreement, the New FH Lease Agreements, 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.

- (d) On 15th January, 2020, the SFC granted (subject to the terms and conditions as set out in the announcement dated 15th January, 2020 published by the REIT Manager) a new waiver from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of the New Wan Chai Hotel Management Agreement described above (the "WC Hotel – RHIHL Connected Persons Group's Waiver"). The WC Hotel – RHIHL Connected Persons Group's Waiver will take effect on 1st January, 2021.

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, 2019, 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\$3.8 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

CBRE, a member of the Valuer Connected Persons Group, was appointed as the principal valuer of Regal REIT. During the year, an amount of approximately HK\$0.7 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 best interests of Unitholders as a whole.

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, 2019, 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:

Names of Significant Unitholders	Total number of issued Units held	Approximate percentage of the issued Units as at 31st December, 2019 ^(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, 2019, 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, 2019, 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, 2019.

Save as disclosed herein, there were no other persons who, as at 31st December, 2019, 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, 2019, 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, 2019 ⁽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, 2019.
- (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, 2019.

Save as disclosed herein, as at 31st December, 2019, 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31st December, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
REVENUE			
Gross rental revenue	5	948,685	983,662
Gross hotel revenue	5	26,947	38,277
		<u>975,632</u>	1,021,939
Property and hotel operating expenses		<u>(19,609)</u>	(31,333)
Net rental and hotel income	5	956,023	990,606
Interest income		1,794	980
Depreciation	11	(9,450)	(9,250)
Fair value changes on investment properties	12	(2,522,605)	1,789,143
Fair value changes on investment properties – right-of-use assets	12	(9,438)	—
REIT Manager fees	6	(104,877)	(114,093)
Trust, professional and other expenses	7	(10,485)	(17,305)
Finance costs – excluding distributions to Unitholders	8	<u>(318,813)</u>	<u>(288,668)</u>
PROFIT/(LOSS) BEFORE TAX AND DISTRIBUTIONS TO UNITHOLDERS		(2,017,851)	2,351,413
Income tax expense	9	<u>(84,411)</u>	<u>(99,749)</u>
PROFIT/(LOSS) FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		(2,102,262)	2,251,664
Finance costs – distributions to Unitholders		<u>(469,070)</u>	<u>(472,327)</u>
PROFIT/(LOSS) FOR THE YEAR, AFTER DISTRIBUTIONS TO UNITHOLDERS		<u>(2,571,332)</u>	<u>1,779,337</u>
EARNINGS/(LOSS) PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	10	<u>HK\$(0.645)</u>	<u>HK\$0.691</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
PROFIT/(LOSS) FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		(2,102,262)	2,251,664
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Gain/(Loss) on revaluation of a property	11	(86,337)	60,504
Income tax effect	21	14,246	(9,983)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		(72,091)	50,521
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		(72,091)	50,521
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		(2,174,353)	2,302,185

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Property, plant and equipment	11	614,000	709,000
Investment properties	12	24,517,000	26,994,000
Investment properties – right-of-use assets	12	21,787	—
Total non-current assets		<u>25,152,787</u>	<u>27,703,000</u>
Current assets			
Accounts receivable	13	10,753	60,982
Prepayments, deposits and other receivables	14	6,065	5,955
Due from related companies	26(b)	48	6,967
Tax recoverable		4,465	6,106
Restricted cash	15	75,977	68,505
Cash and cash equivalents	16	120,155	130,326
Total current assets		<u>217,463</u>	<u>278,841</u>
Total assets		<u>25,370,250</u>	<u>27,981,841</u>
Current liabilities			
Accounts payable	17	41,332	86,711
Deposits received		2,926	224
Due to related companies	26(b)	666	3,470
Other payables and accruals		40,556	50,088
Contract liabilities	18	392	1,246
Interest-bearing bank borrowings	20	747,241	439,492
Lease liabilities	19	9,985	—
Tax payable		40,807	9,304
Total current liabilities		<u>883,905</u>	<u>590,535</u>
Net current liabilities		<u>(666,442)</u>	<u>(311,694)</u>
Total assets less current liabilities		<u>24,486,345</u>	<u>27,391,306</u>

	Notes	2019 HK\$'000	2018 HK\$'000
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	20	9,184,192	9,473,792
Lease liabilities	19	11,802	—
Deposits received		—	2,695
Deferred tax liabilities	21	619,258	600,303
Total non-current liabilities		9,815,252	10,076,790
Total liabilities, excluding net assets attributable to Unitholders			
		10,699,157	10,667,325
Net assets attributable to Unitholders			
		14,671,093	17,314,516
Number of Units in issue			
	22	3,257,431,189	3,257,431,189
Net asset value per Unit attributable to Unitholders			
	23	HK\$4.504	HK\$5.315

The consolidated financial statements on pages 65 to 121 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 26th March, 2020 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, 2019

	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, 2019	8,432,356	15,876	257,346	8,608,938	17,314,516
Loss for the year	—	—	—	(2,102,262)	(2,102,262)
Other comprehensive loss for the year:					
Loss on revaluation of a property, net of tax	—	—	(72,091)	—	(72,091)
Total comprehensive loss for the year, before distributions to Unitholders	—	—	(72,091)	(2,102,262)	(2,174,353)
Transfer of depreciation on a hotel property	—	—	(2,556)	2,556	—
Finance costs – distributions to Unitholders	—	—	—	(469,070)	(469,070)
Net assets as at 31st December, 2019	8,432,356	15,876	182,699	6,040,162	14,671,093

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

DISTRIBUTION STATEMENT

For the year ended 31st December, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Profit/(Loss) for the year, before distributions to Unitholders		(2,102,262)	2,251,664
Adjustments:			
Difference in accounting rental income and contractual cash rental income		(2,261)	(5,661)
Amounts set aside for the furniture, fixtures and equipment reserve	(d)	(36,302)	(44,751)
Amortisation of debt establishment costs		20,789	22,383
Fair value changes on investment properties		2,522,605	(1,789,143)
Depreciation		9,450	9,250
Foreign exchange differences, net		—	5,455
Deferred tax charges		33,201	40,026
Distributable income for the year	(a) & (b)	445,220	489,223
		HK\$	HK\$
Distributions per Unit:			
Interim	(a)	0.068	0.074
Final	(b) & (c)	0.056	0.076
		0.124	0.150

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\$0.068 per Unit for the six months ended 30th June, 2019, resulting in a total amount of interim distribution of HK\$221.5 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 18th May, 2020 in respect of the final distribution for the period from 1st July, 2019 to 31st December, 2019. The final distribution will be paid out to Unitholders on or about 27th May, 2020. The total amount of final distribution to be paid to Unitholders of HK\$182.4 million is arrived at based on the final distribution per Unit of HK\$0.056 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\$221.5 million and the final distribution of HK\$182.4 million, amounted to HK\$403.9 million or 90.7% of the Total Distributable Income for the year.
- The final distribution of HK\$0.056 per Unit for the period from 1st July, 2019 to 31st December, 2019, involving an amount of HK\$182.4 million, was resolved and declared by the REIT Manager on 26th March, 2020. 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, 2020. The final distribution for the period from 1st July, 2018 to 31st December, 2018 of HK\$247.6 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\$36.3 million (2018: HK\$44.8 million).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax and distributions to Unitholders		(2,017,851)	2,351,413
Adjustments for:			
Difference in accounting rental income and contractual cash rental income	5	(2,261)	(5,661)
Fair value changes on investment properties	12	2,522,605	(1,789,143)
Fair value changes on investment properties - right-of-use assets	12	9,438	—
Interest income		(1,794)	(980)
Finance costs - excluding distributions to Unitholders	8	318,813	288,668
Depreciation	11	9,450	9,250
		838,400	853,547
Decrease/(increase) in accounts receivable		52,490	(13,607)
Decrease/(increase) in prepayments, deposits and other receivables		(26)	32
Decrease/(increase) in amounts due from related companies		6,919	(2,368)
Increase in restricted cash		(3)	(1)
Decrease in accounts payable		(45,379)	(12,738)
Increase/(decrease) in deposits received		7	(741)
Decrease in amounts due to related companies		(2,804)	(7,253)
Decrease in other payables and accruals		(4,570)	(20,045)
Increase/(decrease) in contract liabilities		(854)	1,246
Cash generated from operations		844,180	798,072
Interest received		1,710	954
Interest paid		(302,986)	(246,667)
Hong Kong profits tax paid		(18,066)	(48,654)
Net cash flows from operating activities		524,838	503,705
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(787)	(1,746)
Additions to investment properties		(45,605)	(68,857)
Decrease/(increase) in restricted cash		1,132	(843)
Decrease/(increase) in time deposit with an original maturity of more than three months		10,000	(10,000)
Net cash flows used in investing activities		(35,260)	(81,446)

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings, net of debt establishment costs		522,360	4,312,013
Repayment of bank borrowings		(525,000)	(2,224,000)
Repayment of other borrowings		—	(1,952,350)
Principal portion of lease payments		(9,438)	—
Distributions paid		(469,070)	(472,327)
Increase in restricted cash		(8,601)	—
Net cash flows used in financing activities		(489,749)	(336,664)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(171)	85,595
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		120,326	34,731
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		120,155	120,326
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	16	120,155	130,326
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		120,155	120,326

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

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, 2019, the Group's current liabilities exceeded its current assets by HK\$666,442,000 (2018: HK\$311,694,000). The net current liabilities position was mainly due to the outstanding loan under the 2017 MTW Facility in the principal amount of HK\$748,000,000 which will be expiring in September 2020 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, 2019. 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 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. For a sublease arrangement, the classification of the sublease is made by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

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

New definition of a lease

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

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1st January, 2019, the Group recognises fair value changes on the right-of-use assets and interest accrued on the outstanding lease liabilities.

Impact on transition

Lease liabilities at 1st January, 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1st January, 2019 by making reference to the borrowing rate of the 2016 IH Facilities as at 1st January, 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1st January, 2019.

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

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1st January, 2019

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

	HK\$'000
Assets	
Increase in investment properties - right-of-use assets	<u><u>23,199</u></u>
Liabilities	
Increase in lease liabilities	<u><u>23,199</u></u>

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

	HK\$'000
Operating lease commitments as at 31st December, 2018 (under HKAS 17)	8,369
Incremental borrowing rate as at 1st January, 2019	<u>3.39%</u>
Discounted operating lease commitments as at 1st January, 2019	8,190
Add: Payments for optional extension periods not recognised as at 31st December, 2018	15,077
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31st December, 2019	<u>(68)</u>
Lease liabilities as at 1st January, 2019 (under HKFRS 16)	<u><u>23,199</u></u>

The nature of the adjustments and the reasons for the changes in the consolidated statement of profit or loss for the year ended 31st December, 2019 are described below:

	Amounts prepared under		
	HKFRS 16 HK\$'000	Previous HKFRS HK\$'000	Increase/ (decrease) HK\$'000
Property and hotel operating expenses	(19,609)	(29,694)	(10,085)
Fair value changes on investment properties – right-of-use assets	(9,438)	—	9,438
Finance costs – excluding distributions to Unitholders	(318,813)	(318,166)	647

Before the adoption of HKFRS 16, the Group recognised the lease payments as property and hotel operating expenses. Upon the adoption of HKFRS 16, the lease payments are not recognised in profit or loss but reduce the carrying amount of lease liabilities. In addition, the Group recognised the fair value changes on investment properties – right-of-use assets by remeasuring the right-of-use assets as at 31st December, 2019 and recognised the interest arising on the lease liabilities during the year.

Accordingly, the adoption of HKFRS 16 resulted in a decrease in property and hotel operating expenses of HK\$10,085,000 for the year ended 31st December, 2019. Fair value changes on investment properties – right-of-use assets and finance costs – excluding distributions to Unitholders were increased by HK\$9,438,000 and HK\$647,000, respectively, for the year ended 31st December, 2019.

The Group recognised rental income from subleasing right-of-use assets of HK\$10,085,000 for the year ended 31st December, 2019.

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> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</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> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

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

² Effective for annual periods beginning on or after 1st January, 2021

³ 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.

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 (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) 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

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" 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)

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.

Derecognition of financial assets

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

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.

Financial liabilities

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 financial liabilities at amortised cost (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

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

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, and 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.

Leases (applicable from 1st January, 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments).

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Operating leases (applicable before 1st January, 2019)

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

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.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

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:

Property lease classification – 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, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as 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 a 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, 2019. The information about the Group's accounts receivable is disclosed in note 13 to the consolidated financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease and, therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable input when available and is required to make certain entity-specific estimates.

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, 2019 are as follows:

	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Segment revenue			
Gross rental revenue	941,479	7,206	948,685
Gross hotel revenue	—	26,947	26,947
Total	<u>941,479</u>	<u>34,153</u>	<u>975,632</u>
Segment results	<u>938,892</u>	<u>17,131</u>	956,023
Fair value changes on investment properties	(2,515,605)	(7,000)	(2,522,605)
Fair value changes on investment properties – right-of-use assets	(9,438)	—	(9,438)
Depreciation	—	(9,450)	(9,450)
Interest income			1,794
REIT Manager fees			(104,877)
Trust, professional and other expenses			(10,485)
Finance costs – excluding distributions to Unitholders			<u>(318,813)</u>
Loss before tax and distributions to Unitholders			<u>(2,017,851)</u>

The operating segments of the Group for the year ended 31st December, 2018 were 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>

Segment assets and liabilities

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

As at 31st December, 2019, the Group's segment assets, comprised of the aggregate fair values of the investment properties, property, plant and equipment and investment properties – right-of-use assets in the hotel properties segment and the mixed use property segment, amounted to HK\$24,324,787,000 (2018: HK\$26,773,000,000) and HK\$828,000,000 (2018: HK\$930,000,000), 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, 2019		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditures	<u>45,605</u>	<u>787</u>	<u>46,392</u>

	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>

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

Information about a major customer

For the year ended 31st December, 2019, revenue of HK\$941,479,000 (2018: HK\$976,456,000) 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, property, plant and equipment and investment properties – right-of-use assets 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	2019 HK\$'000	2018 HK\$'000
Gross rental revenue			
Rental income			
Initial Hotels	(a)	776,000	813,351
iclub Wan Chai Hotel – Non-hotel portions		7,206	7,206
iclub Sheung Wan Hotel	(b)	46,000	46,587
iclub Fortress Hill Hotel	(c)	46,000	43,990
iclub Ma Tau Wai Hotel	(d)	61,166	61,166
Other income		12,313	11,362
		<u>948,685</u>	<u>983,662</u>
Property operating expenses	(f)	<u>(3,224)</u>	<u>(12,237)</u>
Net rental income		<u>945,461</u>	<u>971,425</u>
Gross hotel revenue			
Hotel operating expenses	(f)	<u>(16,385)</u>	<u>(19,096)</u>
Net hotel income		<u>10,562</u>	<u>19,181</u>
Net rental and hotel income		<u>956,023</u>	<u>990,606</u>
Revenue from contracts with customers			
Gross hotel revenue	(e)	<u>26,947</u>	<u>38,277</u>
Revenue from other sources			
Gross rental income		<u>948,685</u>	<u>983,662</u>

Notes:

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

	2019	2018
	HK\$'000	HK\$'000
Base Rent	776,000	751,000
Variable Rent	—	62,351
	<u>776,000</u>	<u>813,351</u>

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

	2019	2018
	HK\$'000	HK\$'000
Base Rent	46,000	42,000
Variable Rent	—	4,587
	<u>46,000</u>	<u>46,587</u>

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

	2019	2018
	HK\$'000	HK\$'000
Base Rent	46,000	42,390
Variable Rent	—	1,600
	<u>46,000</u>	<u>43,990</u>

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

	2019	2018
	HK\$'000	HK\$'000
Contractual cash rental income	58,905	55,505
Difference in accounting rental income and contractual cash rental income	2,261	5,661
	<u>61,166</u>	<u>61,166</u>

(e) Gross hotel revenue is recognised over time.

(f) Upon the adoption of HKFRS 16, the property operating expenses were reduced to HK\$3,224,000 as the lease payments of HK\$10,085,000 were not recognised in profit or loss for the current year. Further details of which are included in note 2.2 to the consolidated financial statements.

6. REIT MANAGER FEES

	2019 HK\$'000	2018 HK\$'000
Base Fees	76,045	83,945
Variable Fees	28,832	30,148
	104,877	114,093

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 value of the deposited property 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 deposited property of Regal REIT as at the end of the reporting period for the relevant financial year; and
- a variable fee (the "Variable Fee") of currently 3% (subject to a maximum of 5%) per annum of the net property income for the relevant financial year as defined in the Trust Deed in respect of each Initial Hotel, iclub Wan Chai Hotel, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel, which is payable annually.

For the financial year 2019, 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 10th December, 2018.

7. TRUST, PROFESSIONAL AND OTHER EXPENSES

	2019 HK\$'000	2018 HK\$'000
Auditor's remuneration:		
Audit fees	1,888	1,850
Non-audit fees	857	465
Legal and other professional fees	1,506	3,249
Trustee fees	3,802	4,197
Valuation fees	590	610
Foreign exchange differences, net	—	5,455
Other expenses	1,842	1,479
	10,485	17,305

Regal REIT did not appoint any directors and the Group did not engage any employees during the year (2018: Nil) and, accordingly, no director and employee benefit expenses were incurred during the year (2018: Nil).

8. FINANCE COSTS - EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

	Note	2019 HK\$'000	2018 HK\$'000
Total interest expense on financial liabilities not at fair value through profit or loss:			
Interest expense on interest-bearing bank borrowings		293,182	236,633
Interest expense on other borrowings		—	26,217
Amortisation of debt establishment costs		20,789	22,383
Interest expense on lease liabilities	(a)	647	—
		<u>314,618</u>	<u>285,233</u>
Others		4,195	3,435
		<u>318,813</u>	<u>288,668</u>

(a) Upon the adoption of HKFRS 16, the Group recognised interest expense on lease liabilities of HK\$647,000, further details of which are included in note 2.2 to the consolidated financial statements.

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2019 HK\$'000	2018 HK\$'000
Charge for the year	51,330	59,482
Under/(Over) provision in prior years	(120)	241
Deferred (note 21)	33,201	40,026
Total tax charge for the year	<u>84,411</u>	<u>99,749</u>

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax and distributions to Unitholders at the Hong Kong statutory tax rate of 16.5% (2018: 16.5%) to the tax charge at the Group's effective tax rate is as follows:

	2019 HK\$'000	2018 HK\$'000
Profit/(Loss) before tax and distributions to Unitholders	<u>(2,017,851)</u>	<u>2,351,413</u>
Tax charge/(credit) at the statutory tax rate	(332,945)	387,983
Adjustments in respect of current tax of previous periods	(120)	241
Income not subject to tax	(296)	(295,370)
Expenses not deductible for tax	417,229	6,223
Others	543	672
Tax charge at the Group's effective rate	<u>84,411</u>	<u>99,749</u>

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

The calculation of the basic loss per Unit attributable to Unitholders is based on the loss for the year before distributions to Unitholders of HK\$2,102,262,000 (2018: earnings of HK\$2,251,664,000) and the weighted average of 3,257,431,189 Units (2018: 3,257,431,189 Units) in issue during the year. The basic loss per Unit attributable to Unitholders for the year amounted to HK\$0.645 (2018: basic earnings per Unit of HK\$0.691).

The diluted earnings/(loss) per Unit attributable to Unitholders is the same as the basic earnings/(loss) per Unit attributable to Unitholders as there were no dilutive instruments in issue during the year (2018: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

	Authorised investments
	Hotel properties HK\$'000
At 1st January, 2018	656,000
Additions	1,746
Surplus on revaluation	60,504
Depreciation provided during the year	(9,250)
	<hr/>
At 31st December, 2018 and 1st January, 2019	709,000
Additions	787
Deficit on revaluation	(86,337)
Depreciation provided during the year	(9,450)
	<hr/>
At 31st December, 2019	614,000

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 a single 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\$614,000,000 as at 31st December, 2019 (2018: HK\$709,000,000). A revaluation deficit of HK\$86,337,000 (2018: surplus of HK\$60,504,000) resulting from the valuation as at 31st December, 2019 has been charged to other comprehensive loss (31st December, 2018: credited to other comprehensive income).

The property, plant and equipment is categorised as Level 3 in the fair value hierarchy (note 28).

The iclub Wan Chai Hotel has been pledged to secure banking facilities granted to the Group (note 20).

The carrying amount of the Group's property, plant and equipment would have been HK\$395,200,000 (2018: HK\$400,802,000) 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 191.

12. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES – RIGHT-OF-USE ASSETS

	Note	Authorised investments			Total HK\$'000
		Right-of-use assets HK\$'000	Hotel properties HK\$'000	Commercial properties HK\$'000	
At 1st January, 2018		—	24,915,000	221,000	25,136,000
Fair value changes		—	1,789,143	—	1,789,143
Capital expenditures for the year		—	68,857	—	68,857
At 31st December, 2018		—	26,773,000	221,000	26,994,000
Effect of adoption of HKFRS 16		23,199	—	—	23,199
At 1st January, 2019 (restated)		23,199	26,773,000	221,000	27,017,199
Additions		8,026	—	—	8,026
Fair value changes	(a)	(9,438)	(2,515,605)	(7,000)	(2,532,043)
Capital expenditures for the year		—	45,605	—	45,605
At 31st December, 2019		21,787	24,303,000	214,000	24,538,787

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

The Group's investment properties were valued by CBRE at HK\$24,517,000,000 as at 31st December, 2019 (2018: HK\$26,994,000,000). The investment properties are leased to a related company and other commercial tenants under operating leases, further details of which are included in note 19 to the consolidated financial statements.

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 20).

Further particulars of the Group's investment properties are included on pages 190 to 191.

Upon the adoption of HKFRS 16, the Group recognised right-of-use assets as investment properties. Further details of which are included in note 2.2 to the consolidated financial statements.

- (a) The Group's investment properties constitute the Group's investment properties and the right-of-use assets. For the purpose of calculation of distributable income, only the fair value changes on investment properties would be adjusted in the distribution statement.

The investment properties and the investment properties – right-of-use assets are categorised as Level 3 in the fair value hierarchy (note 28).

13. ACCOUNTS RECEIVABLE

	2019 HK\$'000	2018 HK\$'000
Difference in accounting rental income and contractual cash rental income	10,184	7,923
Variable Rent receivables	—	51,738
Other accounts receivable	569	1,321
	<u>10,753</u>	<u>60,982</u>

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 as being 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

	2019 HK\$'000	2018 HK\$'000
Prepayments	491	406
Deposits and other receivables	5,574	5,549
	<u>6,065</u>	<u>5,955</u>

Deposits in the amount of HK\$1,212,000 (2018: 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

	2019 HK\$'000	2018 HK\$'000
Cash and bank balances	49,957	105,326
Non-pledged time deposit with an original maturity of less than three months when acquired	70,198	15,000
Non-pledged time deposit with an original maturity of more than three months when acquired	—	10,000
Cash and cash equivalents	<u>120,155</u>	<u>130,326</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

	2019 HK\$'000	2018 HK\$'000
Amounts due to related companies	41,117	86,437
Other accounts payable	215	274
	<u>41,332</u>	<u>86,711</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:

	2019 HK\$'000	2018 HK\$'000
Advances from customers	<u>392</u>	<u>1,246</u>

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

19. LEASES

The Group as a lessee

The Group has lease contracts for various items of premises used in its operations. Leases of premises generally have lease terms between 1 and 12 years.

(a) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 HK\$'000
Carrying amount at 1st January	23,199
Additions	8,026
Accretion of interest recognised during the year	647
Payments	(10,085)
	<hr/>
Carrying amount at 31st December	21,787
	<hr/> <hr/>
Analysed into:	
Current portion	9,985
Non-current portion	11,802
	<hr/>
	21,787
	<hr/> <hr/>

The maturity analysis of lease liabilities is disclosed in note 29 to the consolidated financial statements.

(b) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 HK\$'000
Interest on lease liabilities	647
Fair value changes on investment properties – right-of-use assets	9,438
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31st December, 2019 (included in property and hotel operating expenses)	195
	<hr/>
Total amount recognised in profit or loss	10,280
	<hr/> <hr/>

(c) The total cash outflow for leases is HK\$10,280,000.

The Group as a lessor

The Group leases its investment properties and investment properties – right-of-use assets (note 12) consisting of hotel properties, commercial properties and premises in Hong Kong under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019	2018
	HK\$'000	HK\$'000
Within one year	865,966	941,145
After one year but within two years	67,709	63,838
After two years but within three years	46,021	65,966
After three years but within four years	—	45,943
	979,696	1,116,892

20. INTEREST-BEARING BANK BORROWINGS

	2019 HK\$'000	2018 HK\$'000
Interest-bearing bank borrowings	9,980,000	9,980,000
Debt establishment costs	(48,567)	(66,716)
	9,931,433	9,913,284
Portion classified as current liabilities	(747,241)	(439,492)
Non-current portion	9,184,192	9,473,792
Amounts repayable:		
Within one year	747,241	439,492
In the second year	4,481,190	746,121
In the third to fifth years, inclusive	4,703,002	8,727,671
	9,931,433	9,913,284

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, 2019, 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 had not been 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. This facility has a term of five years to March 2023. As at 31st December, 2019, the outstanding amount of the 2018 RKH Facility was HK\$3,000.0 million, representing the full amount of the term loan facility.

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 on 22nd December, 2014. On 19th July, 2019, a new term loan facility of HK\$440.0 million (the "2019 WC Facility"), with a term of five years in July 2024, was granted by the same bank to early refinance the 2014 WC Facility. Most of the key terms remain unchanged while the new loan facility bears a lower interest margin. The 2019 WC Facility is secured by the iclub Wan Chai Hotel. As at 31st December, 2019, the outstanding amount on the 2019 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 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. The 2018 SW Facilities have a term of five years to October 2023. As at 31st December, 2019, 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 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. The 2018 FH Facilities have a term of five years to November 2023. As at 31st December, 2019, 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, 2019, 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, 2019, the outstanding loan facilities bore interest at the Hong Kong Interbank Offered Rate plus an interest margin ranging from 0.92% per annum to 1.15% per annum (2018: ranging from 0.92% per annum to 1.45% per annum).

Bank borrowings under the 2016 IH Facilities, the 2018 RKH Facility, the 2014 WC Facility, the 2019 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.

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, 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)	449	(37,175)	(3,300)	(40,026)
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>
Gross deferred tax assets/(liabilities) at 1st January, 2019	(50,853)	(560,809)	11,359	(600,303)
Deferred tax credited to other comprehensive loss during the year	14,246	—	—	14,246
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 9)	<u>505</u>	<u>(32,641)</u>	<u>(1,065)</u>	<u>(33,201)</u>
Gross deferred tax assets/(liabilities) at 31st December, 2019	<u>(36,102)</u>	<u>(593,450)</u>	<u>10,294</u>	<u>(619,258)</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	
	2019	2018
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, 2019 of HK\$14,671,093,000 (2018: HK\$17,314,516,000) by the number of Units in issue of 3,257,431,189 (2018: 3,257,431,189) as at that date.

24. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Note	Lease liabilities HK\$'000	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
		<u>—</u>	<u>—</u>	<u>5,396</u>
At 31st December, 2018		—	9,913,284	—
Effect of adoption of HKFRS 16		23,199	—	—
		<u>23,199</u>	<u>—</u>	<u>—</u>
At 1st January, 2019 (restated)		23,199	9,913,284	—
Changes from financing cash flows		(9,438)	(2,640)	—
Non-cash changes:				
Additions	(a)	8,026	—	—
Amortisation of debt establishment costs		—	20,789	—
		<u>—</u>	<u>20,789</u>	<u>—</u>
At 31st December, 2019		<u>21,787</u>	<u>9,931,433</u>	<u>—</u>

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$8,026,000 and HK\$8,026,000, respectively, in respect of lease arrangements for premises (2018: Nil).

25. COMMITMENTS

- (a) The Group had the following capital commitments in respect of its properties at the end of the reporting period:

	2019	2018
	HK\$'000	HK\$'000
Authorised, but not contracted for	<u>103,193</u>	<u>72,996</u>

- (b) Operating lease commitments as at 31st December, 2018

The Group leased certain premises under operating lease arrangements which had been negotiated for terms ranging from 1 to 12 years. At 31st December, 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018
	HK\$'000
Within one year	7,805
In the second to fifth years, inclusive	<u>564</u>
	<u>8,369</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 were charged to the consolidated statement of profit or loss.

26. 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
CBRE Limited	The principal valuer of the Group

(a) Transactions with connected/related parties:

	Notes	2019 HK\$'000	2018 HK\$'000
Contractual rental income received/receivable from the RHIHL Group	(i)	939,218	970,795
Rental income received/receivable from the RHIHL Group	(ii)	1,843	1,843
Hotel management fees charged by the RHIHL Group	(iii)	(1,095)	(1,775)
Marketing fees charged by the RHIHL Group	(iv)	(269)	(383)
Building management fees charged by the PHL Group	(v)	(632)	(599)
REIT Manager fees	(vi)	(104,877)	(114,093)
Trustee fees	(vii)	(3,802)	(4,197)
Valuation and other services fees paid/payable to the principal valuer	(viii)	(730)	(750)
Meeting fees charged by the RHIHL Group	(ix)	(151)	—
		<u> </u>	<u> </u>

Notes:

- (i) The rental income earned by the Group was in accordance with the relevant lease agreements with respect to the Initial Hotels, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel.
- (ii) The rental income earned by the Group was in accordance with the relevant tenancy agreement with respect to Shop Nos. A & B, which is part of the iclub Wan Chai Hotel.
- (iii) The hotel management fees in respect of iclub Wan Chai Hotel – Hotel portion were comprised of (a) a base fee, for an amount based on 2% of the gross hotel revenue, and (b) an incentive fee based on 5% of the excess of the gross operating profit over the base fee and fixed charges in accordance with the corresponding hotel management agreement.
- (iv) The marketing fees in respect of iclub Wan Chai Hotel – Hotel portion were charged at 1% of the gross hotel revenue of iclub Wan Chai Hotel – Hotel portion in accordance with the corresponding hotel management agreement.
- (v) The building management fees were charged at a mutually agreed amount payable on a monthly basis in respect of iclub Wan Chai Hotel – Non-hotel portions.
- (vi) The REIT Manager is entitled to receive Base Fees and Variable Fees, details of which, including the terms, are set out in note 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 the deposited property 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.

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	2019 HK\$'000	2018 HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables	(i)	—	51,738
Accounts payable to related companies	(ii)	(41,117)	(86,437)
Deposit received	(iv)	(461)	(461)
Other payables	(ii)	(151)	—
Amounts due from related companies	(ii)	48	6,967
Amounts due to related companies	(ii)	(666)	(3,470)
Net amounts due from the PHL Group:			
Deposits paid	(ii)	1,212	1,212
Net amounts due to:			
The Trustee	(iii)	(684)	(1,245)
The principal valuer	(iv)	(390)	(350)
Restricted and non-restricted bank balances with the Deutsche Bank Group	(v)	155	155

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 2019, the RHIHL Group provided a third party guarantee as security deposit for an amount of HK\$194.0 million (2018: HK\$187.75 million), which is equivalent to three-month Base Rent for the year 2019, 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. Due to the current hotel management agreement which will expire on 31st December, 2020, on 20th December 2019, the Group entered into a new hotel management agreement with a member of the RHIHL Group on substantially the same terms as the current hotel management agreement. The term shall be for a 10-year term commencing on 1st January, 2021.
- (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.

27. 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	
	2019 HK\$'000	2018 HK\$'000
Accounts receivable	10,753	60,982
Financial assets included in prepayments, deposits and other receivables	5,574	5,549
Due from related companies	48	6,967
Restricted cash	75,977	68,505
Cash and cash equivalents	120,155	130,326
	212,507	272,329

Financial liabilities

	Financial liabilities at amortised cost	
	2019 HK\$'000	2018 HK\$'000
Accounts payable	41,332	86,711
Deposits received	2,926	2,919
Due to related companies	666	3,470
Other payables and accruals	40,556	50,088
Contract liabilities	392	1,246
Interest-bearing bank borrowings	9,931,433	9,913,284
Lease liabilities	21,787	—
	10,039,092	10,057,718

28. 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 to 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, 2019

	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	—	—	614,000	614,000
Investment properties	—	—	24,517,000	24,517,000
Investment properties - right-of-use assets	—	—	21,787	21,787
	—	—	25,152,787	25,152,787

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

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 (2018: 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 2019	Range 2018
Significant unobservable inputs		
Capitalisation rate	3.00%	3.00%
Discount rate	6.00%	6.00%
Growth rate p.a. (Approximately)	2.7% to 17.1%	2.7% to 9.0%
Occupancy rate	85% to 95%	96%
Room rate per day (Approximately)	HK\$1,000 to HK\$1,500	HK\$1,200 to HK\$1,600
Gross operating profit (as a % of revenue) (Approximately)	50% to 58%	57% to 59%

(b) Investment properties

	Range 2019	Range 2018
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 32.4%
Occupancy rate	Hotel	75% to 96%
Room rate per day (Approximately)	Hotel	88% to 96%
Gross operating profit (as a % of revenue) (Approximately)	Hotel	HK\$600 to HK\$1,800
Estimated rental p.a. (Approximately)	Commercial	HK\$700 to HK\$2,000
	HK\$6,900,000 to HK\$9,500,000	36% to 65%
		HK\$7,000,000 to HK\$8,900,000

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.

The discounted cash flow analysis was used for the valuation of the investment properties – right-of-use assets, with the following key inputs:

(c) Investment properties – right-of-use assets

Significant unobservable inputs	2019
Discount rate	3.82%
Estimated rental p.a. (Approximately)	HK\$10,400,000

Under the income approach - discounted cash flow analysis, fair value is estimated using assumptions regarding the benefits of right-of-use assets over the lease period with the landlord. This method involves the projection of a series of cash flows on the right-of-use assets. A discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the right-of-use assets.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews or lease renewals. The appropriate duration is driven by market behavior that is a characteristic of the class of property. The periodic cash flow is estimated as rental income. The series of periodic rental income is then discounted.

A significant increase/(decrease) in the estimated rent would result in a significant increase/(decrease) in the fair value of the right-of-use assets. A significant increase/(decrease) in the discount rate would result in a significant (decrease)/increase in the fair value of the right-of-use assets.

29. 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 increased the Group’s loss before tax and distributions to Unitholders for the current year by HK\$99.8 million (2018: decreased the Group’s profit before tax and distributions to Unitholders by HK\$99.8 million). A 10 basis point decrease in interest rates would have hypothetically decreased the Group’s loss before tax and distributions to Unitholders for the current year by HK\$10.0 million (2018: increased the Group’s profit before tax and distributions to Unitholders by HK\$10.0 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 on 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:

	2019			Total HK\$'000
	On demand HK\$'000	Less than 12 months HK\$'000	1 to 5 years HK\$'000	
Accounts payable	41,117	215	—	41,332
Deposits received	—	2,926	—	2,926
Due to related companies	—	666	—	666
Other payables and accruals	—	40,556	—	40,556
Contract liabilities	—	392	—	392
Interest-bearing bank borrowings	—	1,104,595	9,771,376	10,875,971
Lease liabilities	—	10,383	11,972	22,355
	41,117	1,159,733	9,783,348	10,984,198

	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

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 38.9% to 54.2% (2018: ranged from 35.4% to 50.2%), 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 39.3% (2018: 35.7%), being the gross amount of the outstanding loans aggregating HK\$9,980.0 million (2018: HK\$9,980.0 million), as compared to the total gross assets of Regal REIT of HK\$25,370.3 million (2018: HK\$27,981.8 million). For details of the gross amount of the outstanding loans, please refer to note 20 to the financial statements. The gearing ratio is below the maximum 45% permitted under the REIT Code.

30. 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.

31. EVENT AFTER THE REPORTING PERIOD

The global outbreak of the novel coronavirus in recent months has had a significant impact on the tourism and hospitality sectors and, thereby, weakened the Group's hotel operating performance. While the Group has a buffer insofar as it has fixed base rent from an income point of view, there may be a negative impact on the valuation of the Group's overall property portfolio and variable rent in the Group's 2020 interim and annual financial statements.



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 65 to 121, which comprise the consolidated statement of financial position as at 31st December, 2019, 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, 2019, 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 ("HKSA") 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, 2019, the Group's investment properties and property, plant and equipment were valued at approximately HK\$24.5 billion and HK\$0.6 billion, respectively, which made up, in aggregate, 99.1% 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 28 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, 2019. 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, 2020

PERFORMANCE TABLE

As at 31st December, 2019

	Notes	Year ended 31st December, 2019	Year ended 31st December, 2018	Year ended 31st December, 2017	Year ended 31st December, 2016	Year ended 31st December, 2015
Net assets attributable to Unitholders (HK\$'million)		14,671.1	17,314.5	15,484.7	13,437.9	13,371.2
Net asset value per Unit attributable to Unitholders (HK\$)		4.504	5.315	4.754	4.125	4.105
The highest traded price during the year (HK\$)	1	2.52	2.47	2.45	2.2	2.37
The lowest traded price during the year (HK\$)		1.72	2.14	2.05	1.72	1.88
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		61.81%	59.74%	56.88%	58.30%	54.20%
Distribution yield per Unit	2	6.14%	6.73%	6.04%	7.48%	7.94%

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, 2019 is calculated by dividing the total distributions per Unit of HK\$0.124 over the Unit closing price of HK\$2.02 on the last trading day of 2019. Details of the total distributions per Unit is set out in the section "Distribution Statement" on page 70.

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 2019 to 31 December 2019.

DB Trustees (Hong Kong) Limited

(in its capacity as the trustee of Regal REIT)

Hong Kong, 19 March 2020



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 2020

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 2019

We refer to your instruction to value the Properties of Regal REIT as at **31 December 2019** (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.

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.

CBRE Limited
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Estate Agent's Licence No: C-004065

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.

Valuation Assumptions

The values stated in this report represent our objective opinion of value in accordance with the definition set out above as of the date of valuation. Our assessment assumes (among other things), that the properties have been properly marketed and that exchange of contracts took place on this date.

The recent outbreak of the Novel Coronavirus, declared by the World Health Organisation as a global health emergency on 30th January 2020, is causing heightened uncertainty in both local and global market conditions. Originating in Wuhan, China, the outbreak continues to develop, and cases are progressively being detected in further countries. Travel restrictions have been implemented by many countries, restricting travel to and from China.

The effect the Coronavirus will have on the real estate market is currently unknown and will largely depend on both the scale of the outbreak and how long it continues. Tourism and Retail sectors are likely to be the first impacted, with the restriction of travel from Chinese tourists and growing concerns from tourists from other destinations. A prolonged outbreak could have a significant impact on certain sectors of the property market.

The current volatility caused by the social unrest in Hong Kong has had a significant impact on the hotel sector. Like the virus, the future impact is dependent on both the scale and how long it continues.

Given the current uncertainty, a higher degree of caution should be exercised when relying upon our valuation. Values, and incomes, may change more rapidly and significantly than during standard market conditions and we recommend that you keep the valuation of the properties under frequent review.

Our valuation in this report has made reference to management budget provided, and the assumptions that the above-mentioned events are short-term only and the performance of the assets shall return to its normal level when the market recovers.

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 in January 2020. 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
RICS Registered 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 2019 HK\$
1	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	2,915,000,000
2	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	4,262,000,000
3	Regal Kowloon Hotel 71 Mody Road Tsim Sha Tsui Kowloon Hong Kong	5,740,000,000
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	1,860,000,000
5	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin New Territories Hong Kong	5,084,000,000

No.	Property	Market Value in existing state as at 31 December 2019 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	828,000,000
7	iclub Sheung Wan Hotel 138 Bonham Strand Sheung Wan Hong Kong	1,530,000,000
8	iclub Fortress Hill Hotel 18 Merlin Street North Point Hong Kong	1,532,000,000
9	iclub Ma Tau Wai Hotel 8 Ha Heung Road Kowloon Hong Kong	1,380,000,000
Total:		25,131,000,000

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.)	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 2019

Occupancy Rate	:	91%
Average Room Rate	:	HK\$1,268

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 27 December 2028 (both days inclusive).
Rental	:	From 2011 to 2028, 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 2019 and 2020 Market Rental Package Determinations, Base Rent for RAH for the fiscal years of 2019 and 2020 are HK\$252,000,000 and HK\$245,000,000 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.

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. 38,030 sq.ft. (3,533 sq.m.)
Occupied Area (Lettable)	:	Approx. 38,030 sq.ft. (3,533 sq.m.)
Vacant Area (Lettable)	:	0 sq.ft. (0 sq.m.)
Occupancy Rate	:	100.0%
Monthly Base Rent	:	HK\$2,291,418 (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	4,452	11.7%	1	5.6%	171,120	7.5%
Year Ending 2020	8,049	21.2%	4	22.2%	449,406	19.6%
Year Ending 2021	20,520	54.0%	11	61.1%	1,389,457	60.6%
Year Ending 2022	5,009	13.2%	2	11.1%	281,435	12.3%
Total	38,030	100%	18	100%	2,291,418	100%
		(rounded)		(rounded)		(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	4,452	11.7%	1	5.6%	171,120	7.5%
More than 1 year and up to 2 years	1,479	3.9%	2	11.1%	70,866	3.1%
More than 2 years and up to 3 years	26,726	70.3%	14	77.8%	1,770,140	77.3%
More than 3 years and up to 4 years	5,373	14.1%	1	5.6%	279,292	12.2%
Total	38,030	100%	18	100%	2,291,418	100%
		(rounded)		(rounded)		(rounded)

Latest Expiry Date : 14 December 2022

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 ten 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\$217,523 per month

Latest Expiry Date : 14 February 2022

ESTIMATED NET PROPERTY YIELD⁸

8.6%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2019

HK\$2,915,000,000

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 2019 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 Woo 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/H6/17 dated 18 January 2019.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	34	Executive Club Floor Deluxe Room	36
Superior Room	136	Executive Suite	20
Deluxe Room	105	Deluxe Suite	8
Prime Deluxe Room	18	Presidential Suite	1
Premier Room	6	Imperial Suite	1
Family Triple Room	89	Chairman Suite	1
Family Quadruple Room	12	Regal Royale Suite	2
Executive Club Floor Superior Room	12		
		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\$698,262.50 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 three years commencing from 16 January 2019 with a monthly rent of HK\$142,071.

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 2019

Occupancy Rate	:	68%
Average Room Rate	:	HK\$1,179

Lease Agreement

Lessor	:	Cityability Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Listing Date and expiring on 31 December 2030 (both days inclusive).
Rental	:	From 2011 to 2030, 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 2019 and 2020 Market Rental Package Determinations, Base Rent for RHK for the fiscal years of 2019 and 2020 are HK\$132,000,000 and HK\$114,000,000 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

3.1%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2019

HK\$4,262,000,000

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 2019 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 13 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 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.)	Boardroom Style	No. of seating in Theatre/ 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 2019

Occupancy Rate	:	69%
Average Room Rate	:	HK\$1,090

Lease Agreement

Lessor	:	Ricobem Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Listing Date and expiring on 31 December 2030 (both days inclusive).
Rental	:	From 2011 to 2030, 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 2019 and 2020 Market Rental Package Determinations, Base Rent for RKH for the fiscal years of 2019 and 2020 are HK\$165,000,000 and HK\$144,000,000 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\$1,879,679 (All tenancies except five 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 2020	29,938	74.6%	14	56.0%	1,371,282	73.0%
Year Ending 2021	4,538	11.3%	7	28.0%	281,017	15.0%
Year Ending 2022	4,304	10.7%	1	4.0%	200,000	10.6%
Total	40,142	100%	25	100%	1,879,679	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	21,883	54.5%	12	48.0%	973,147	51.8%
More than 2 years and up to 3 years	14,796	36.9%	8	32.0%	764,443	40.7%
More than 3 years and up to 4 years	2,101	5.2%	2	8.0%	114,709	6.1%
Total	40,142	100% (rounded)	25	100% (rounded)	1,879,679	100% (rounded)

Latest Expiry Date : 2 July 2022

Range of Rent-free Period : 0 to 3 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	:	30 April 2020

ESTIMATED NET PROPERTY YIELD²⁴

2.9%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2019

HK\$5,740,000,000

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 2019 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/K10/25 dated 5 July 2019.

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 2019

Occupancy Rate	:	78%
Average Room Rate	:	HK\$648

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 2030 (both days inclusive).
Rental	:	From 2011 to 2030, 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 2019 and 2020 Market Rental Package Determinations, Base Rent for ROH for the fiscal years of 2019 and 2020 are HK\$67,000,000 and HK\$61,000,000 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)	:	ROH - Approx. 0 sq.ft. (0 sq.m.) Po Sing Court – Approx. 1,407 sq.ft. (131 sq.m.)
Vacant Area (Lettable)	:	ROH – Approx. 12,263 sq.ft. (1,139 sq.m.) Po Sing Court – Approx. 7,930 sq.ft. (737 sq.m.)
Occupancy Rate	:	ROH – 0% Po Sing Court – 15.1%
Monthly Base Rent	:	ROH – HK\$0 Po Sing Court – HK\$18,000 (All tenancies are exclusive of rates, management fees and air-conditioning charges.)

ROH

Latest Expiry Date	:	N/A
Range of Rent-free Period	:	N/A
Option to Renew	:	N/A
Summary of Terms	:	N/A

Po Sing Court

Tenancy Expiry Profile

Year	Lettable Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
Year Ending 2021	1,407	100.0%	1	100.0%	18,000	100.0%
Total	1,407	100% (rounded)	1	100% (rounded)	18,000	100% (rounded)

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

Tenancy Duration Profile

Tenancy Duration	Lettable Area (sq.ft.)	% of Total	No. of Tenancy	% of Total	Monthly Rent (HK\$)	% of Total
More than 1 year and up to 2 years	1,407	100.0%	1	100.0%	18,000	100.0%
Total	1,407	100% (rounded)	1	100% (rounded)	18,000	100% (rounded)

Latest Expiry Date : 4 July 2021

Range of Rent-free Period : 0 month

Option to Renew : N/A

Summary of Terms : The Landlord³¹ 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 and Antennae

Number of Licences : 3

Monthly Licence Fee : HK\$69,365 per month

Latest Expiry Date : 31 December 2019

ESTIMATED NET PROPERTY YIELD³²

3.6%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2019

HK\$1,860,000,000

³¹ All tenancy agreements/licences are entered into by Favour Link International Ltd as Landlord.

³² The Estimated Net Property Yield of ROH is derived from the rent receivable in 2019 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 Asset Enhancement Programme in 2009. The property will have 9 more rooms in operation from the second quarter of 2020 after the recent renovation works.

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 Superior 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 ³³	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 ³⁴	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.

³³ Outside seating areas are provided on the Ground Floor.

³⁴ 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 2019

Occupancy Rate	:	73%
Average Room Rate	:	HK\$681

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 2030 (both days inclusive).
Rental	:	From 2011 to 2030, the Market Rent ³⁵ 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 ³⁶ .

According to the 2019 and 2020 Market Rental Package Determinations, Base Rent for RRH for the fiscal years of 2019 and 2020 are HK\$160,000,000 and HK\$146,000,000 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 ³⁷ (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 ³⁸ 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)

³⁵ 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.

³⁶ Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

³⁷ According to the Hotel Management Agreement, "Gross Revenue" means all revenue derived from the Hotel.

³⁸ According to the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

RETAIL TENANCY/LICENCE SCHEDULES

Retail³⁹

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 ⁴⁰ 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.

³⁹ The areas quoted exclude spaces which are used by RRH.

⁴⁰ 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 YIELD⁴¹

3.1%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2019

HK\$5,084,000,000

⁴¹ The Estimated Net Property Yield of RRH is derived from the rent receivable in 2019 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 Executive	10
iSelect Premier	12	iSuite Premier	4
iPlus Premier	29	iResidence Premier	7
iBusiness Deluxe	19		
		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 July 2019, registered vide Memorial No. 19080702600227.

HOTEL OPERATION

Hotel Performance in 2019

Occupancy Rate	:	84%
Average Room Rate	:	HK\$890

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	From the Effective Date ⁴² , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of 31 December 2030.
Base Fee	:	Two percent (2%) of Gross Revenue ⁴³
Incentive Fee	:	Five percent (5%) of the excess of the GOP ⁴⁴ over the Base Fee and the Fixed Charges.

⁴² According to the Hotel Management Agreement, “Effective Date” means 1 January 2011.

⁴³ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁴⁴ 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

Retail⁴⁵

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 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. The rates, government rent, taxes are payable by the Tenant.

⁴⁵ The areas quoted exclude spaces which are used by ICWC.

⁴⁶ 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 ⁴⁷ 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 YIELD⁴⁸

2.1%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2019

HK\$828,000,000

⁴⁷ All tenancy agreements are entered into by Sonnix Limited as Landlord.

⁴⁸ The Estimated Net Property Yield of ICWC is derived from the net income receivable in 2019 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 Area⁴⁹:	: 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/H3/33 dated 9 August 2019.

⁴⁹ 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	34	iSuite	18
iSelect Premier	7	iResidence	7
iBusiness Deluxe	8		
		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)
- Occupation Permit No. HK1/2014 (OP), dated 6 January 2014, registered vide Memorial No. 18112102410465.

Deeds Pending Registration

- Lease Agreement in favour of Favour Link International Limited dated 18 November 2019, registered vide Memorial No. 19121001910020. (Note: For the period commencing from 1 January 2020 to 31 December 2024) (Registration withheld) (For The Remaining Portion of Inland Lot No. 66, The Remaining Portion of Section C of Marine Lot No. 67, The Remaining Portion of Section B of Marine Lot No. 67, Section C of Marine Lot No. 67A, The Remaining Portion of Sub-section 1 of Section A of Marine Lot No. 67, The Remaining Portion of Sub-section 1 of Section B of Marine Lot No. 67 only)

HOTEL OPERATION

Hotel Performance in 2019

Occupancy Rate	:	84%
Average Room Rate	:	HK\$776

Lease Agreement

Lessor	:	Tristan Limited
Lessee	:	Favour Link International Limited

Term of Lease Agreement	:	Commencing from the Effective Date ⁵⁰ and expiring on 31 December 2024
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 2019 and 2020 Market Rental Package Determinations, Base Rent for ICSW for the lease year of 2019 and 2020 are HK\$46,000,000 and HK\$41,000,000 respectively; and the Variable Rent is 50% of the excess of the NPI.

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	From the Effective Date ⁵¹ , 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 ⁵² (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 ⁵³ 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)

⁵⁰ According to the Lease Agreement, “Effective Date” means 10 February 2014

⁵¹ According to the Hotel Management Agreement, “Effective Date” means 10 February 2014.

⁵² According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁵³ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

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 YIELD⁵⁴

3.0%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2019

HK\$1,530,000,000

⁵⁴ The Estimated Net Property Yield of ICSW is derived from the rent receivable in 2019 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	17	iPlus	108
iRoom Premier	11	iPlus Premier	30
iSelect	116	iBusiness Premier	56
		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.
- Occupation Permit No. 20/2014(OP), dated 5 May 2014, registered vide Memorial No. 19010702210517.
- Confirmation receipt on discharge of a charge, dated 7 December 2018, registered vide Memorial No. 18121402530083.
- Lease Agreement in favour of Favour Link International Limited dated 18 November 2019, registered vide Memorial No. 19121001910030. (Note: For the period commencing from 1 January 2020 to 31 December 2024)

HOTEL OPERATION

Hotel Performance in 2019

Occupancy Rate	:	79%
Average Room Rate	:	HK\$576

Lease Agreement

Lessor	:	Wise Decade Investments Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Effective Date ⁵⁵ and expiring on 31 December 2024

⁵⁵ According to the Lease Agreement, "Effective Date" means 28 July 2014

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 2019 and 2020 Market Rental Package Determinations, Base Rent for ICFH for the lease year of 2019 and 2020 are HK\$46,000,000 and HK\$41,000,000 respectively; and the Variable Rent is 50% of the excess of the NPI.

Hotel Management Agreement (“HMA”)

Hotel Manager : Regal Hotels International Limited

Term of HMA : From the Effective Date⁵⁶, 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 Revenue⁵⁷ (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 GOP⁵⁸ 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)

⁵⁶ According to the Hotel Management Agreement, “Effective Date” means 28 July 2014.

⁵⁷ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁵⁸ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

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 YIELD⁵⁹

3.0%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2019

HK\$1,532,000,000

⁵⁹ The Estimated Net Property Yield of ICFH is derived from the rent receivable in 2019 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 Area⁶⁰	:	6,298 sq.m.
Covered Floor Area	:	Approx. 9,490 sq.m.
Town Planning Zoning	:	“Residential (Group A)” zone under Ma Tau Kok Outline Zoning Plan No. S/K10/25 dated 5 July 2019.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iSelect	48	iPlus Family	48
iPlus	64	iPlus Premier Family	60
iSelect Premier	27	iBusiness Premier	54
iSelect Premier Family	12	iBusiness Premier Family	18
iBusiness Deluxe Family	9		
		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.

⁶⁰ 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 2019

Occupancy Rate	:	66%
Average Room Rate	:	HK\$522

Lease Agreement

Lessor	:	Land Crown International Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Effective Date ⁶¹ 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.

⁶¹ 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 ⁶² , 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 ⁶³ (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 ⁶⁴ 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 YIELD⁶⁵

4.3%

MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2019

HK\$1,380,000,000

⁶² According to the Hotel Management Agreement, “Effective Date” means 4 September 2017

⁶³ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁶⁴ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

⁶⁵ The Estimated Net Property Yield of ICMTW is derived from the fixed rent receivable in 2019 divided by the Market Value.

HOTEL MARKET OVERVIEW

In 2019, Hong Kong recorded its first decline of visitor arrivals in three years as it received a total of 55.9 million visitor arrivals, representing a double-digit year-on-year (y-o-y) decline of 14.2%⁶⁶. The city's visitor arrivals enjoyed a strong momentum in the first half of 2019, registering a solid growth of 13.9%. However, due to the large-scale protests sparked in June, the number of visitor arrivals started to lose steam, leading to a 39.1% y-o-y drop in the second half of the year.

Visitors from all source markets registered a decline in 2019. Mainland visitors registered a y-o-y decline of 14.2% to 43.8 million, though it still remained as the largest source market in Hong Kong, contributing 78.3% of total visitor arrivals⁶⁷.

The total overnight visitor arrivals also declined by 18.8% y-o-y to 23.8 million, of which overnight visitor arrivals from the Mainland decreased by 18.5% y-o-y to 16.2 million, while overnight visitor arrivals from international markets recorded a y-o-y decline of 19.6% y-o-y to 7.5 million in 2019. In terms of region, the long-haul markets dropped by 15.2% y-o-y to 2.9 million, and short-haul markets reported a larger decline of 22.1% y-o-y to 4.6 million⁶⁸.

The overall hotel sector gradually improved since 2016 but suffered a major setback over the second half of 2019 as the local unrest sparked in June. In particular, the incident prompted more than 40 countries to issue travel warnings against visiting Hong Kong, which has started to weigh on the city's inbound tourism and hotel sectors.

Hotel operators generally had to trade in room rates to maintain occupancy. In 2019, the overall average daily room rate dropped by 12.4% from a year earlier to HK\$1,206 per night, while the average hotel room occupancy rate fell from 91% in 2018 to 79%. The average room rate of High Tariff A Hotels finished 2019 with a contraction of 8% y-o-y to HK\$1,982 per night, and an average occupancy of 74%. Likewise, the average room rates of High Tariff B and Medium Tariff hotels declined by 15.7% y-o-y and 19.1% y-o-y, with lower occupancy rates at 79% and 82%, respectively in 2019⁶⁹.

Despite the recent downturn, the expansion of infrastructure and diversification of attractions will continue to provide support to the city as a world-class travel destination. According to the International Institute for Management Development's World Competitiveness Yearbook 2019⁷⁰, Hong Kong still ranked at top places in terms of business legislation, tax policy and management practices. The city's well-known business-friendly market would still be an important factor for many firms to set up businesses in Hong Kong.

To meet the future air traffic growth and maintain Hong Kong's competitiveness as an international aviation hub, the Airport Authority is expanding the Hong Kong International Airport (HKIA) into a three-runway system. The project is expected to complete by 2024⁷¹.

⁶⁶ Source: HKTB, Visitor Arrival Statistics – December 2019

⁶⁷ Source: HKTB, Visitor Arrival Statistics – December 2019

⁶⁸ Source: HKTB, Visitor Arrival Statistics – December 2019

⁶⁹ Source: HKTB, Hotel Room Occupancy Report – December 2019

⁷⁰ Source: Hong Kong Economy, hkeconomy.gov.hk

⁷¹ Source: Hong Kong Airport Authority

According to the 2019-20 budget, the government continues to join forces with the Hong Kong Tourism Board (HKTB) to implement the Development Blueprint initiative for Hong Kong's tourism industry released in 2017. The government allocated a sum of HK\$353 million to HKTB to step up promotion of Hong Kong's image as a premier tourism destination, entice visitors to experience Hong Kong's local culture in different districts, and enhance publicity on Hong Kong's major festivals and events⁷².

To alleviate the dampening tourism sector, the government has also rolled out a set of relief measures worth about HK\$2 billion last year, targeting tourism and transportation industry. Travel agencies will receive cash incentives from the government for each tourist received as part of relief measures for the industry⁷³.

New expansion projects were planned and underway at Hong Kong's two major theme parks - Ocean Park and Hong Kong Disneyland. Ocean Park Hong Kong unveiled a comprehensive blueprint and redevelopment plan for the future that leverages on the Park's nature, conservation and edutainment features. Ocean Park will also welcome the launch of its Tai Shue Wan Water World project later this year⁷⁴.

On the other side of the island, the Hong Kong Disneyland also rolled out its expansion plan by adding new attractions and entertainment facilities to the park by 2023. More leisure travellers are expected to be drawn to Hong Kong after the opening of new developments at both theme parks⁷⁵.

In 2019, a total of 13 hotels with over 2,600 new rooms were added to the market, comprising of midscale to luxury hotels. Major new hotels were located in Tsim Sha Tsui district, namely Rosewood Hong Kong (540 keys) and K11 Artus (287 keys). Other major completion includes Hotel St. Regis Hong Kong (129 keys) in Wan Chai and ALVA Hotel by Royal (618 keys) in Sha Tin. Closure during the period included The Excelsior, Hong Kong (-886 keys) which will be redeveloped into an office building⁷⁶.

The forecast of new hotel supply for 2020 will see an addition of 3,800 rooms to the market that could further exert downward pressure on occupancy. Nevertheless, we expect the actual completions will be lower than the estimate figure assuming a slight delay of new hotel openings is considered common in the market⁷⁷.

Although the hotel market appeared to have settled slightly towards the end of 2019, the recent outbreak of the novel coronavirus further intensified the market downturn. In addition, the World Health Organization declared novel coronavirus a global health emergency which casts a heightened uncertainty on the market outlook. Travel restrictions have been implemented by many countries, restricting travel to and from China. The extent of impact on Hong Kong's hotel industry will largely depend on the scale and duration of the outbreak. However, in view of an eventual recovery, the tourist arrivals from the Mainland is poised to experience a rebound after the relaxation of cross-border restrictions and the outlook of the hotel industry is expected to remain optimistic in the medium to long term.

⁷² Source: HKSAR Government Budget 2019-2020

⁷³ Source: HKSAR Government Official Press Release

⁷⁴ Source: Ocean Park, Press Release

⁷⁵ Source: Hong Kong Disneyland, Press Release

⁷⁶ Source: HKTB, Hotel Supply Situation – as at September 2019

⁷⁷ Source: HKTB, Hotel Supply Situation – as at September 2019

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. Given its strategic location, RAH is a preferred hotel for visitors, especially transit passengers at the HKIA, airline crew and business travellers.

Situated on the largest outlying island in Hong Kong, RAH is well-connected to the city centre. Public transports including over 40 public bus routes and the Airport Express Line are available for travellers transiting to various destinations within the city. The island continues to see new expansion projects to improve the transportation networks, including the HKZB Bridge that opened in 2019, providing a faster route to Zhuhai and Macau. The bridge is expected to bring Hong Kong, Zhuhai and Macau closer together as a 'tourism triangle', driving the development of tourism, hospitality and MICE facilities.

An upcoming sub-sea road tunnel that links between Tuen Mun and Chek Lap Kok is expected to be completed in 2020⁷⁸, connecting the Northwest New Territories with the airport. The infrastructure project will see more potential growth on attracting business, leisure and layover travellers.

RAH is also located near the AsiaWorld-Expo, one of the two major convention facilities in Hong Kong that holds international exhibitions, events, conferences, and concerts. The 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 AsiaWorld-Expo, the hotel became a popular choice among business travellers, which also impelled the demand for the hotel's MICE business. In addition to the convention venue, major tourist attractions such as the Ngong Ping 360 and Hong Kong Disneyland are also in proximity to RAH.

The majority of the room demand at RAH was generated by business travellers, attributable to its strategic location and proximity to the AsiaWorld-Expo. Business travellers and airline crews accounted for 42.3% and 39.5%, respectively of the total room nights accommodated at RAH. Guests stayed at RAH for leisure purposes accounted for 16.7%, and additionally, there were special demand generated by emergency layovers due to delays/cancellations of flights (1.5%).

In terms of geographical profile of hotel guests, visitors from Asia (excluding China) accounted for the largest proportion of guests (43.0%), followed by Mainland China visitors (23.4%), and American visitors (13.1%).

The two HKIA projects - HKIA Terminal 2 and the three-runway system (3RS) expansion projects are expected to be completed by 2024. Upon the completion of the 3RS, the HKIA will be able to serve 30 million additional passengers annually as forecasted in the HKIA Master Plan 2030⁷⁹ which will inevitably generate greater demand for hotel rooms. The SkyCity⁸⁰ development located near RAH is scheduled to open in phases from 2023 to 2027. The development of SkyCity integrates retail, dining, and entertainment that will increase the attractiveness among visitors and drive higher foot traffic to the surrounding area.

⁷⁸ Source: Highways Department

⁷⁹ Source: Airport Authority

⁸⁰ Source: SkyCity Hong Kong, www.skycityhongkong.com

New hotel projects in the pipeline include The Silveri MGallery by Sofitel Hong Kong, Sheraton Tung Chung Hotel, and Four Points by Sheraton Tung Chung hotel located in Tung Chung. Two existing hotels considered as the major competitors to RAH, are namely Novotel Citygate Hong Kong in Tung Chung and Hong Kong SkyCity Marriott Hotel adjacent to the AsiaWorld-Expo. The extension project of the Hong Kong SkyCity Marriott Hotel could provide up to 342 rooms⁸¹. In addition, a new hotel project by the Regal Hotels International is currently under construction at the SkyCity, expecting to offer 1,208 hotel rooms⁸² in 2021.

Based on the long-term growth forecast on the airport traffic turnover and the increased demand driven by the expansion of the HKIA projects, RAH is poised to benefit from the growing passenger movements at HKIA and expected to achieve a reasonable growth in average room rates over the medium-term. That said, the local sociopolitical events and recent virus outbreak are causing heightened uncertainty over the short-term.

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. Trams also run pass Hennessy Road that connect the western and eastern district of Hong Kong Island.

Causeway Bay is regarded as a popular shopping venue that attracts both 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 corporations relocating their offices 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 69.2% of total hotel guests, leisure travellers accounted for 30.7%. RHK had a mix profile of hotel guests in 2019, visitors from Mainland China made up the largest proportion of guests at 58.8%, followed by Asia (excluding China) at 31.7%, while European visitors accounted for 5.3% and American visitors accounted for 2.2%.

There was no record of new hotel supply in Causeway Bay in 2020. A proposed hotel along Tang Lung Street is expected to launch in 2022, offering a total of 69 rooms. The Excelsior Hotel (886 rooms) on Gloucester Road closed in March 2019 for redevelopment into an office tower⁸³.

RHK is located at a vibrant district in Hong Kong, gaining popularity among Mainland Chinese tourists and business travellers due to its locational convenience. Based on the long-term growth forecast and the supply constraints in the area, RHK is expected to achieve a reasonable growth in average room rates over the medium-term. That said, the outbreak of the novel coronavirus has heightened the uncertainty in the hotel market over the short-term.

⁸¹ Source: HKTB, Hotel Supply Situation – as at September 2019

⁸² Source: Regal Hotels International, SkyCity Hong Kong, www.skycityhongkong.com

⁸³ Source: HKTB, Hotel Supply Situation – as at September 2019

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. Moreover, RKH is situated near the Tsim Sha Tsui East shoreline, certain hotel rooms can enjoy Victoria Harbour view. The general locality is surrounded by major shopping malls that are popular among tourists, namely Harbour City, 1881 Heritage, The One, Silvercord, iSQUARE and K11 Musea. 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 and served by both Tsim Sha Tsui East and Tsim Sha Tsui Mass Transit Railway (MTR) Stations. 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 four-year reconstruction is expected to increase the foot traffic in Tsim Sha Tsui harbourfront area. The Avenue of Stars is only 13 minutes' walk from RKH.

The majority of the room demand at RKH was generated by business travellers, accounted for nearly 71% of total guests, attributable to its strategic location and proximity to major office developments, while guests stayed at RKH for leisure purposes accounted for 28.4%. RKH had a relatively balanced guest profile between Mainland China and other countries in 2019, with 42.0% of guests came from Mainland China; 41.9% of guests from Asian countries (excluding PRC); 10.7% from European countries, and the remaining from America and other countries.

In 2019, three hotels were opened in Tsim Sha Tsui, namely the Rosewood Hotel, K11 Artus, and Page 148, offering 540 rooms, 287 rooms and 197 rooms, respectively. These new hotel developments are unlikely to have a significant impact on RKH due to the differences in their operation scale, market positioning 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 once the market condition improves⁸⁴.

As a major shopping and tourist destination as well as regional business hub, RKH in Tsim Sha Tsui will continue to benefit from the steady demand generated from both business and leisure travellers once the market condition improves. It is anticipated that RKH will achieve a steady growth on the average daily rate in the medium-term and its performance would be largely aligned with the overall citywide hotel performance. That said, the local socio-political events and recent novel coronavirus outbreak are causing heightened uncertainty over the short-term.

⁸⁴ Source: HKTB, Hotel Supply Situation – as at September 2019

4. REGAL ORIENTAL HOTEL

Regal Oriental Hotel (ROH) is located in Kowloon City and in proximity to the Kai Tak development site. The general locality is characterised by street level shops and shopping malls namely Kowloon City Plaza and Mikiki Mall. Large-scale shopping centres such as Festival Walk is located in the nearby district.

The Kai Tak Development Area (KTDA) located in vicinity of ROH is a new large-scale development zone in Kowloon East. Over the past decade, more resources have been allocated to developing the eastern part of Kowloon. The KTDA is developing as a new commercial district to complementing the city's traditional CBD on Hong Kong Island, and contributing to the momentum for a new wave of Kowloon East redevelopments. About 18 million square feet of commercial and office space have been planned for within the 320-hectare KTDA. The KTDA consists of designated residential area, an international cruise terminal, sports and tourism facilities⁸⁵. The Kai Tak Sports Park development project is scheduled for completion in 2023, offering some 50,000 seats at main stadium. The stadium will host major sports games, local athletic events, as well as for public and community use⁸⁶. The recent land bidding prices at KTDA reflected the future development of the area shall not be undermined.

As both working and resident populations of the area continue to rise, there will be a growing demand for other commercial and community amenities including shopping malls, hotels and recreational facilities. 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 tunnel. The SCL Phase 1 - Tai Wai to Kai Tak section opened on 14 February 2020. The Kai Tak to Hung Hom section is planned to open in 2021, the travelling time between Kowloon City and Admiralty will be shortened to under 15 minutes once the SCL Phase 2 is completed⁸⁷.

In 2019, the majority of the room demand at ROH came from Asia countries (excluding PRC), accounted for 57.4% of the total guests, while the mainland accounted for 33.5%. The remaining guests were visitors from Europe and America. Visitors travelling for business purpose accounted for the largest proportion at 59.3% in the hotel, reflecting the budget travellers' demand. Visitors stayed for leisure purpose dropped by 14.1 percentage points to 40.7%.

In 2019, the Le Hoteru located in To Kwa Wan was completed in the third quarter, offering a total of 99 rooms⁸⁸. The competition of this new hotel is expected to be minimal as it has a different market positioning and pricing strategies compared to ROH.

The outbreak of the novel coronavirus has heightened the uncertainty in the hotel market over the short-term and the number of visitors to the city was impacted during the period. However, given Hong Kong's solid retail and tourism fundamental coupled with the supply constraints and growth prospect in the district, it is anticipated that ROH will achieve a steady growth on the average daily rate once the market condition improves over the medium-term and its performance would be largely aligned with the overall citywide hotel performance.

⁸⁵ Source: Kai Tak Development Area, <https://www.ktd.gov.hk/eng/>

⁸⁶ Source: Kai Tak Sports Park, www.kaitaksportspark.hk

⁸⁷ Source: MTR's corporate website, www.mtr.com.hk

⁸⁸ Source: HKT B, Hotel Supply Situation – as at September 2019

5. REGAL RIVERSIDE HOTEL

Regal Riverside Hotel (RRH) is located in Sha Tin, adjacent to the Shing Mun River. The general locality is characterised by residential developments. It is one of Hong Kong's most prominent new town developments as well as the most populous city in the New Territories. Major shopping venues include New Town Plaza, Shatin Centre and Shatin Plaza Shopping Arcade, all of which have been serving the neighbourhood community with full assortment of shops. The district also offers unique cultural experiences such as the dragon boat racing event on Shing Mun River and the horse racing event at Sha-tin Racecourse.

The under-construction of Mass Transit Railway Shatin-Central Link (SCL) project⁸⁹ will provide a new railway access from Tai Wai to Admiralty. This new direct linkage between the New Territories and Hong Kong Island would greatly benefit RRH as the connectivity between Shatin and Hong Kong Island will be greatly enhanced upon the full completion of SCL.

In 2019, over half (53.5%) of RRH's guests came from Asia countries (excluding PRC). Given the easy access from Shenzhen to Hong Kong through Lohu and Lok Ma Chau MTR Stations, 38.9% of guests in RRH were from Mainland China, and the remaining made up by other countries such as US and Europe. Over 67.2% of RRH's guests were business travellers in 2019, while around 32.6% of guests were leisure travellers.

In 2019, one new hotel was opened in Sha Tin, namely Alva Hotel by Royal located at Yuen Hong Street, offering 618 rooms⁹⁰. This new hotel in the district is unlikely to have a significant impact on RRH due to the differences in scale of operation and positioning. Furthermore, the strong demand for hotel rooms in the area is likely to absorb the additional room supply easily once the market condition improves.

Upon the full commission of the SCL and the relaxation of cross-border restrictions, it is anticipated that the average daily rate of RRH will recover steadily in the medium-term and its performance would be largely aligned with the overall citywide hotel performance. That said, the local socio-political events and recent novel coronavirus outbreak are causing heightened uncertainty on the short-term market outlook.

⁸⁹ Source: MTR's corporate website, www.mtr.com.hk

⁹⁰ Source: HKTB, Hotel Supply Situation – as at September 2019

6. ICLUB WAN CHAI HOTEL

iclub Wan Chai Hotel (ICWC) is located at the heart of Wan Chai. The district is a peripheral commercial and business hub extending from Admiralty's east to Causeway Bay's west featuring offices, street shops, restaurants, and hotels. Over 20 Grade A and A- office buildings are clustered in the area, including Three Pacific Place, Hopewell Center, Sun Hung Kai Centre, Great Eagle Centre and Central Plaza. The Hong Kong Convention and Exhibition Centre (HKCEC), located on the waterfront of Wan Chai, is one of the iconic landmarks in Hong Kong. The HKCEC hosts over hundreds of international exhibitions and conferences annually, attracting large number of merchants and business traders coming from around the world.

Various modes of public transport are available along Hennessy Road, Johnston Road, and Gloucester Road in Wan Chai. Tramways that run through Johnston Road and Hennessy Road in Wan Chai connect the district from West to East side of Hong Kong Island. The Wan Chai Mass Transit Railway (MTR) Station which is located 10 minutes away from ICWC can conveniently connect the district to other places. The Wan Chai Ferry Pier also provides ferry services to Tsim Sha Tsui. In addition, the Central-Wan Chai Bypass that opened to traffic in January 2019 is set to ease traffic congestion along the Gloucester Road and Harcourt Road⁹¹.

Located at the centre of the commercial district, the room demand at ICWC was substantially driven by business travellers, accounted for 92.2% of the total hotel guests, and the remaining 7.8% was made up by leisure travellers. In terms of the guests' geographical profile, visitors from Asia (excluding China) made up the largest mix of guests at 49.3%; followed by Mainland China visitors at 23.1%, and Europe at 15.1%. The rest of guests were coming from other regions.

In 2019, a new luxury hotel was opened in Wan Chai, namely St. Regis Hotel Hong Kong on Harbour Road, offering 129 rooms.

The hotel supply in Wan Chai will continue to maintain momentum as three hotel projects are set to open in 2020, located on Morrison Hill Road (122 rooms), Jaffe Road (181 rooms), and Lockhart Road (210 rooms)⁹². The Hopewell Centre II, which is scheduled to be completed in 2021, will offer a total of 1,024 guest rooms⁹³. These hotel supplies are expected to assume a slight delay, considered as a common situation in the market. Meanwhile, the new hotels are unlikely to pose significant impact on ICWC due to the 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 once the market condition improves.

ICWC will continue to benefit from the steady 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. Despite the outbreak of the novel coronavirus that may cause a short-term effect on the city's hotel industry, it is expected that the performance of ICWC will be largely in line with the overall hotel market in 2020.

⁹¹ Source: Highways Department, "Central-Wan Chai Bypass and Island Eastern Corridor Link", www.cwb-hyd.hk

⁹² Source: HKTB, Hotel Supply Situation – as at September 2019

⁹³ Source: Hopewell Holdings Limited, www.hopewellholdings.com

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. It is also known for various specialty retail stores, ranging from antique and art galleries along Hollywood Road to Chinese dried seafood specialty stores along Wing Lok Street and Des Voeux Road West. Historical landmarks including the Dr. Sun Yat-Sen Historical Trail, Man Mo Temple, PMQ (former Hollywood Road Police Married Quarters) and Tai Kwun (Former Central Police Station Compound) are also found in the district, which became popular amongst tourists.

Sheung Wan has an extensive transport links along Queen's Road Central and Des Voeux Road Central. ICSW, which is located within ten minutes' walk from the Sheung Wan Mass Transit Railway (MTR) Station and the tram terminus enjoys a regular and stable connectivity to other districts. In addition, the Hong Kong-Macau Ferry Terminal in Sheung Wan provides ferry and helicopter services connecting to Macau and other cities in Southern China.

With its proximity to Central, ICSW has been a popular accommodation choice among business travellers. In 2019, the guest's profile of ICSW showed 78.1% of the guests travelled for business purpose and 21.9% travelled for leisure purpose. ICSW had a relatively balanced mix of guests as the guest profile is made up by a high proportion (52.7%) of guests coming from Asia (excluding China), 27.6% of guests from mainland China, and 19.7% of guests from other countries.

According to the latest figures from HKTB, the Central and Western District offers a total of 54 hotels, and 9,163 rooms. It is estimated that four new hotels are in the pipeline and are set for opening in the coming years⁹⁴.

The recent outbreak of the novel coronavirus is causing heightened uncertainty in the hotel market. With the restriction of travel from Chinese tourists and growing concerns from tourist from other countries, the hotel industry is likely to be affected in the short- to medium-term. However, the favorable location of ICSW will remain as the major draw to travellers as it is located close to Central, the major CBD in Hong Kong. The limited supply in Sheung Wan will support the performance of ICSW once the market condition improves, whilst the average daily rate of ICSW will be in line with the overall hotel market despite the market uncertainty.

⁹⁴ Source: HKTB, Hotel Supply Situation – as at September 2019

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. The Eastern Corridor and Mass Transit Railway (MTR) provide convenient access from the district to other parts of Hong Kong.

ICFH is only five minutes away from the Fortress Hill MTR Station. Located two stations away from Causeway Bay - a common shopping destination to adolescences, tourists and local shoppers. 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 No.169 Electric Road, AIA Tower, Fortress Tower and Citicorp Centre. ICFH is in vicinity to Victoria Park and the Hong Kong Stadium where various international events would be held in these venues. Quarry Bay is also two MTR station away from Fortress Hill and is another key decentralised business district comprising several landmark office developments.

ICFH enjoyed a mixed profile of hotel guests, with 65.2% business guests and 34.8% leisure guests in 2019. By geographical distribution, visitors from Asia (excluding China) made up the largest proportion of guests at 48.9%, followed by Mainland China visitors at 36.1% and 15.0% of guests were from other countries.

In 2019, one new hotel was opened in the first quarter, namely Hotel Purple located at No. 19 Wing Hing Street, offering a total of 83 rooms. In 2020, North Point would welcome another new hotel - the Hotel Alexandra, located at City Garden Road, offering 840 rooms⁹⁵.

Based on the long-term growth forecast for hotel room demand and the balanced new supply in the area, it is anticipated that ICFH will achieve a steady growth on the average daily rate in the medium-term once the market condition improves and its performance would be largely aligned with the overall citywide hotel performance. That said, the local socio-political events and recent novel coronavirus outbreak are causing heightened uncertainty over the short-term.

⁹⁵ Source: HKTB, Hotel Supply Situation – as at September 2019

9. ICLUB MA TAU WAI HOTEL

iclub Ma Tau Wai Hotel (ICMTW) is located in To Kwa Wan. The general locality is characterised by a mixture of residential buildings, street shops and commercial blocks. The Kai Tak Development Area (KTDA) located in vicinity of ICMTW is a new large-scale development zone in Kowloon East. The KTDA is developing as a major commercial district with good matching facilities and resources to complement the city's traditional CBD.

Kowloon East has gathered 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 KTDA⁹⁶. As both working and living population in the area is expected to rise in the next few years, there will be new developments including shopping malls, hotels, and recreational facilities to accommodate the neighborhood's needs.

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) and an integrated road network project - the Central Kowloon Route (CKR) that connects East Kowloon and West Kowloon mainly through an underground tunnel. The SCL Phase 1 - Tai Wai to Kai Tak section opened on 14 February 2020. The Kai Tak to Hung Hom section comprised of To Kwa Wan MTR Station is planned to open in 2021, the travelling time between To Kwa Wan and Admiralty will be shortened to under 15 minutes once the SCL Phase 2 is commissioned⁹⁷.

Under the existing alignment planning, accessibility is greatly enhanced as 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 shortened⁹⁸. Upon the completion of CKR highway, 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.

In 2019, ICMTW had a relatively balanced mix of room demand, of which 46.9% of the hotel guests were for business purpose while guests stayed for leisure purpose accounted for 53.1%. In terms of geographical profile of guests, the majority of hotel guests was coming from Asia (excluding China), accounted for 48.4%; while the mainland accounted for 43.0% and the remaining guests were visitors from other countries.

In 2019, the Le Hoteru located in To Kwa Wan was completed in the third quarter, offering a total of 99 rooms. The competition of this new hotel is expected to be minimal as it has a different market positioning and pricing strategies compared to ICMTW.

The outbreak of the novel coronavirus has heightened the uncertainty in the hotel market over the short-term and the number of visitors to the city was impacted during the period. However, given Hong Kong's solid retail and tourism fundamental coupled with the supply constraints and growth prospect in the district, it is anticipated that ICMTW will achieve a steady growth on the average daily rate once the market condition improves over the medium-term and its performance would be largely aligned with the overall citywide hotel performance.

⁹⁶ Source: Civil Engineering and Development Department, "Overview of Kai Tak Development", www.ktd.gov.hk

⁹⁷ Source: MTR's corporate website, www.mtr.com.hk

⁹⁸ Source: highways Department, 'Central Kowloon Route', www.ckr-hyd.hk

SUMMARY OF PROPERTY PORTFOLIO

As at 31st December, 2019

	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 <i>(sq.m.)</i>	Approx. Covered Floor Area <i>(sq.m.)</i>	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, 2019 HK\$'000	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
Gross rental and hotel revenue	975,632	1,021,939	957,773	973,479	1,001,720
Net rental and hotel income	956,023	990,606	927,141	943,887	971,594
Profit/(Loss) before tax and distributions to Unitholders	(2,017,851)	2,351,413	2,594,515	684,694	(1,406,775)
Profit/(Loss) for the year, before distributions to Unitholders	(2,102,262)	2,251,664	2,488,325	563,980	(1,527,821)
Distributable income for the year attributable to Unitholders	445,220	489,223	473,038	511,362	550,334
Total distributions per Unit	HK\$0.124	HK\$0.150	HK\$0.145	HK\$0.154	HK\$0.154

Summary of the assets and liabilities

	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Non-current assets:					
Property, plant and equipment	614,000	709,000	656,000	590,000	592,000
Investment properties	24,517,000	26,994,000	25,136,000	21,632,000	21,480,000
Investment properties - right-of-use assets	21,787	—	—	—	—
Current assets	217,463	278,841	166,305	155,334	118,418
Total assets	25,370,250	27,981,841	25,958,305	22,377,334	22,190,418
Current liabilities	883,905	590,535	2,990,055	330,351	220,888
Non-current liabilities	9,815,252	10,076,790	7,483,592	8,609,039	8,598,341
Total liabilities	10,699,157	10,667,325	10,473,647	8,939,390	8,819,229
Net assets attributable to Unitholders	14,671,093	17,314,516	15,484,658	13,437,944	13,371,189
Net asset value per Unit attributable to Unitholders	HK\$4.504	HK\$5.315	HK\$4.754	HK\$4.125	HK\$4.105

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