



REGAL REIT  
富豪產業信託

Regal Real Estate Investment Trust

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

# 2015 ANNUAL REPORT



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

## AUDIT COMMITTEE OF THE REIT MANAGER

John William Crawford, JP (Chairman)  
Alvin Leslie Lam Kwing Wai  
Kai Ole Ringenson  
Abraham Shek Lai Him, GBS, JP  
Kenneth Ng Kwai Kai

## DISCLOSURE COMMITTEE OF THE REIT MANAGER

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

## RESPONSIBLE OFFICERS OF THE REIT MANAGER

Johnny Chen Sing Hung  
Simon Lam Man Lim  
Yip Yat Wa

## SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

## TRUSTEE OF REGAL REIT

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

## AUDITORS

Ernst & Young

## PRINCIPAL VALUER

Colliers International (Hong Kong) Ltd

## PRINCIPAL BANKERS

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

## LEGAL ADVISERS

Baker & McKenzie

## 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 2015 Annual Report of Regal Real Estate Investment Trust.

For the year ended 31st December, 2015, Regal REIT recorded a consolidated net loss before distributions to Unitholders of HK\$1,527.8 million, while for the financial year 2014, a profit of HK\$238.5 million was reported. Unitholders should, however, note that the consolidated loss recorded for 2015 was principally attributable to an accounting loss of HK\$2,049.5 million arising from the fair value changes in the appraised values of the hotel portfolio between the two year end dates, after having taken into account the amount of capital expenditure incurred. If the effects of these fair value changes are excluded, the core profit before distributions to Unitholders for the year under review would amount to HK\$521.7 million, representing an increase of 3.2% over the corresponding amount of HK\$505.4 million for the preceding year.



Although the rental income from the five Initial Hotels and the net hotel income from the iclub Wan Chai Hotel fell short of the amounts achieved in 2014 due to the weaker market conditions, 2015 was the first full year of fixed rental receipts from both the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel, which were acquired in February and July 2014, respectively. Consequently, the total distributable income has increased by 3.3% from HK\$532.9 million in 2014 to HK\$550.3 million for the year under review.

The Board of Directors of the REIT Manager has resolved to declare a final distribution of HK\$0.080 per Unit for the year ended 31st December, 2015. Together with the interim distribution of HK\$0.074 per Unit paid, this will bring the total distributions per Unit for 2015 to HK\$0.154. Total distributions for the year, including both the interim and final distributions, will amount to HK\$501.6 million and represent a payout ratio of 91.2% of the total distributable income for 2015.

Continuing the divergent trend in the previous year, the few major economies performed differently during 2015 with the United States leading the recovery pace. On 16th December, 2015, for the first time in almost 10 years, the US Federal Reserve raised the Federal Funds Rate by 0.25% and, matching the decision of the US Federal Reserve, the Hong Kong Monetary Authority also increased the Base Rate by 25 basis points from 0.5% to 0.75%, raising the interest rate in Hong Kong for the first time since 2006. This was believed to be the start of the US interest rate normalisation process but the pace of future interest rate hikes will still be dependent on the global economic conditions. While the US is showing signs of a recovery in its economy, the economies in the Eurozone only have slight improvements and Japan remains stagnant. In the People's Republic of China, the annual Gross Domestic Product (GDP) increased by 6.9%, representing a drop of 0.4 percentage point as compared to the preceding year, evidencing China's efforts to adapt to the new norms under which China's economic growth is turning from high-speed to medium-high speed, and to the adjustment of its industrial structure. Meanwhile, the annual GDP of Hong Kong increased modestly by 2.4% which was 0.2 percentage point below the level in 2014.

In 2015, visitor arrivals to Hong Kong decreased by 2.5% year-on-year to a total of just over 59.3 million. This was the first time that Hong Kong has witnessed a negative growth in total visitor arrivals year-on-year since 2004. 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 for 2015 was 86.0%, a decrease of 4 percentage points from 2014, while the industry-wide achieved average room rate recorded a downward adjustment of 9.2%, resulting in a year-on-year decline of 13.3% in the Revenue per Available Room (RevPAR).

A number of adverse factors, including the hangover effects from the "Occupy Central" movement in late 2014 and the "Anti-parallel trade" activities during the first quarter of 2015, a strong Hong Kong dollar and the increased competition from other countries, continued to negatively impact the tourist and hotel markets in Hong Kong in 2015. Overall business conditions for the hotel industry for the year have been challenging and hotel operators generally had to trade in room rates to maintain occupancies. The five Initial Hotels, which are leased to a wholly-owned subsidiary of Regal Hotels International Holdings Limited, the immediate listed holding company of Regal REIT, have as a whole managed to achieve relatively satisfactory performance amidst a competitive environment. The combined average occupancy rate for the Initial Hotels for 2015 was 86.1%, which was in-line with the market average, while the average room rate has dropped by 6.0% year-on-year. These translated into a decrease in RevPAR of 12.4% which, nevertheless, was comparatively better than the industry norm.

The total net property income generated by the five Initial Hotels for the year amounted to HK\$796.3 million, which represented an excess of HK\$33.3 million over the aggregate annual base rent of HK\$763.0 million, 50% of which was attributable to Regal REIT as variable rent. The iclub Wan Chai Hotel, which is owned and self-operated by Regal REIT, continued to enjoy good demand and while it was able to maintain close to full occupancy, the average room rate has dropped by 17.8% due to keen price competition. As previously reported, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel have also been leased to the same lessee of the Initial Hotels and in 2015 generated their first full year cash rental receipts for a total of HK\$166.8 million.

Regal REIT now owns a total of eight operating hotels in Hong Kong, with an aggregate of 4,569 guestrooms and suites. The current portfolio of properties comprises a good mixture of full-service type hotels and select-service type hotels in strategic locations, which can cater to different demands from a wide range of business and leisure visitors to Hong Kong. The REIT Manager will constantly review the performance of each property and evaluate any potential yield enhancement opportunities.

As reported earlier, at an Extraordinary General Meeting held on 14th April, 2015, the independent Unitholders have approved, among others, the extension of the existing lease agreements for the five Initial Hotels for another five years to 31st December, 2020, with the market rental packages for the extended terms continuing to be determined annually by a jointly appointed independent professional property valuer. The market rental review for the five Initial Hotels for 2016 was subsequently completed in September 2015. The annual base rent for 2016 was determined at HK\$732.0 million, reflecting a slight reduction of 4.1% below the annual base rent of HK\$763.0 million for 2015, with variable rent continuing to be based on 50% sharing of the excess of the aggregate net property income of the Initial Hotels over the aggregate base rent. The relatively substantial amount of base rent fixed for the Initial Hotels will continue to provide a buffer on the income stream of Regal REIT against short term business fluctuations in a volatile market environment.

The market conditions for the tourist and hotel industry in Hong Kong in the first two months of 2016 have continued to be competitive and challenging. Moreover, the divergent socio-political sentiments presently prevailing in Hong Kong, the slowing down of the pace of economic growth in China and the increased geopolitical tensions and volatilities in the financial markets globally are creating additional uncertainties.

In an effort to support the local tourism and to uphold Hong Kong's image as one of the preferred travel destinations in the world, the Hong Kong Government and the Hong Kong Tourism Board have since last year organised, on top of all its regular programs, a series of marketing and promotional events including the Hong Kong Summer Fun campaign in June 2015 and the setup of the Matching Fund for Overseas Tourism Promotion by Tourist Attractions in last September. It is also anticipated that the Hong Kong Government will continue to commit sufficient resources to develop and expand new tourism attractions and to enhance and upgrade all infrastructural facilities, ensuring that Hong Kong will have sufficient capacities to accommodate and serve the demands of an increasing number of global and regional visitors.

The REIT Manager strongly believes in the resilience of Hong Kong and in its ability to maintain its position as a favourite tourist destination, for both business and leisure travellers alike. Although it is not expected that there could be a speedy recovery in the local tourism and hotel markets within the very near term, the REIT Manager remains confident of their long term prospects. Being the only listed hospitality REIT with market concentration in Hong Kong, the REIT Manager is committed to maintaining Regal REIT's leading position as one of the pre-eminent hotels owners in Hong Kong. The REIT Manager will continue to prudently review acquisition opportunities, both locally and overseas, which can serve to strengthen and broaden the revenue base of Regal REIT.

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

**Lo Yuk Sui**

*Chairman*

**Regal Portfolio Management Limited**

(as the REIT Manager of Regal REIT)

Hong Kong, 22nd March, 2016



# 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
Appox. Covered Floor Area (sq.m.)	Bar / Lounge	Business Centre	Club Lounge



■ Presidential Suite



■ Grand Ballroom



■ Airport Izakaya



## REGAL AIRPORT HOTEL













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

Tel: (852) 2286 8888

Fax: (852) 2286 8686

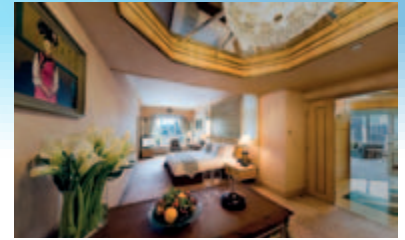
Email: [info@airport.regalhotel.com](mailto:info@airport.regalhotel.com)

Website: [www.regalhotel.com](http://www.regalhotel.com)

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

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





■ Imperial Suite



■ Hotel Lobby



■ Café Rivoli

## REGAL HONGKONG HOTEL

- Located in the heart of Causeway Bay, one of the busiest 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
- The Forum, meeting and conference centre, provides full range of facilities catering to the needs of business travellers, meeting and exhibition delegates
- Executive Club Floor features a collection of 82 tastefully appointed guestrooms and suites with a private lounge
- Top 10 City-Nova Hotels of China by 10th China Hotel Starlight Awards (2015)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014-2015)
- Silver Benchmarking Certificate by EarthCheck (2014-2015)
- Alto 88 achieved Italian Hospitality Seal by Ospitalità Italiana as certified restaurant (2014-2016)
- Alto 88 and Regal Palace voted as Hong Kong's Best Restaurant by Hong Kong Tatler Magazine (2002-2016)
- Regal Palace awarded Best of the Best Culinary Awards – Silver Award by Hong Kong Tourism Board (2015)
- Regal Palace awarded Best-Ever Dining Awards by Weekend Weekly (2015)
- Chef de Partie of Café Rivoli awarded the Golden Award of Gourmet Master Chef (2014)
- Café Rivoli awarded Best-Ever Dining Awards by Weekend Weekly (2014)












88 Yee Wo Street,  
Causeway Bay, Hong Kong.

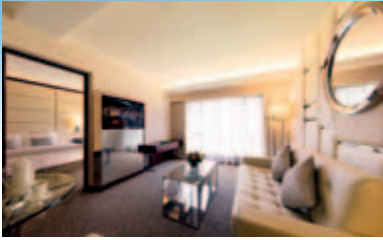
Tel: (852) 2890 6633

Fax: (852) 2881 0777

Email: [info@hongkong.regalhotel.com](mailto:info@hongkong.regalhotel.com)

Website: [www.regalhotel.com](http://www.regalhotel.com)

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



■ Executive Suite



■ Versailles Ballroom



■ Café Allegro



## REGAL KOWLOON HOTEL











71 Mody Road, Tsimshatsui,  
Kowloon, Hong Kong.

Tel: (852) 2722 1818

Fax: (852) 2369 6950

Email: [info@kowloon.regalhotel.com](mailto:info@kowloon.regalhotel.com)

Website: [www.regalhotel.com](http://www.regalhotel.com)

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

- Conveniently located in Tsimshatsui East, a commercial and tourist district
- Within walking distance from Tsim Sha Tsui ("TST"), East TST and Hung Hom MTR stations, with easy access to Mainland China
- Close to TST's major shopping centres and entertainment areas
- Close to waterfront with promenade
- Close to popular tourist attractions including Hong Kong Science Museum, Hong Kong Space Museum, Hong Kong Museum of Art, Hong Kong Cultural Centre, Clock Tower and the Star Ferry, etc.
- Hong Kong Green Organization by Environmental Protection Department (2015)
- Silver Benchmarking Certificate by EarthCheck (2014-2015)
- ISO 22000 Certification on Food Safety Management (2014-2015)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014-2015)
- Golden Award (Kowloon Area) in Rakuten Travel Award by Rakuten Travel (2014)
- Outstanding Hotel Partner Award by booking.com (2014)
- Pineapple Award by Preferred Hotel Group (2014)
- Business Hotel of the Year 2014 by Guangdong, Hong Kong, Macau General Manager Society (2014)





■ Presidential Suite



■ Superior Room



■ The China Coast Pub + Restaurant

## REGAL ORIENTAL HOTEL

- Located in Kowloon City, facing the 328 hectares (810 acres) Kai Tak development site planned for a new urban centre including the Kai Tak Cruise Terminal opened in 2013 and related tourist facilities
- Historic landmarks such as Wong Tai Sin Temple are in the immediate vicinity
- Easy access to Kowloon Tong MTR station, Mong Kok and other business and shopping districts
- 38 newly renovated rooms on 11/F., including Deluxe Room and Superior Room, are tailored for busy travellers appreciating trendy ambience, décor and friendly service. Privileges include private lounge, gymnasium and business centre in a compact and cosy environment
- Silver Benchmarking Certificate by EarthCheck (2014-2015)
- Gold Circle Award by Agoda.com (2015)
- Caring Company Award by The Hong Kong Council of Social Service (2015)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014-2015)
- Indoor Air Quality Certificate – Excellent Class by Environmental Protection Department (2015)
- Halal Certificate by The Incorporated Trustees of The Islamic Community Fund of Hong Kong (2015)
- Regal Terrace awarded Best of the Best Culinary Awards – Silver Award by Hong Kong Tourism Board (2014)

30-38 Sa Po Road, Kowloon City,  
Kowloon, Hong Kong.

Tel: (852) 2718 0333

Fax: (852) 2718 4111

Email: [info@regalhotel.com](mailto:info@regalhotel.com)

Website: [www.regalhotel.com](http://www.regalhotel.com)

 494


 1982

 27,300 sq.m.

 22,601 sq.m.

 2

 1

 345 sq.m.

 8

 1

 1



■ Superior Room



■ Riverside Ballroom



■ Aji Bou Izakaya



## REGAL RIVERSIDE HOTEL

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

Tel: (852) 2649 7878

Fax: (852) 2637 4748

Email: [info@riverside.regalhotel.com](mailto:info@riverside.regalhotel.com)

Website: [www.regalhotel.com](http://www.regalhotel.com)

 1,138


 474 sq.m.

 1986

 12

 69,100 sq.m.

 1

 59,668 sq.m.

 1

 8

 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 features over 900 shops
- Close to Sha Tin Racecourse, Hong Kong Science & Technology Parks, the Chinese University of Hong Kong and the Ten Thousand Buddhas Monastery
- The spacious guestrooms on the Executive Club Floors are equipped with full amenities and modern facilities. In simple contemporary design, the Executive Club Lounge provides exclusive business services and meeting room that bring a truly comfortable and convenient stay
- 2009 East Asian Games Headquarters Hotel and 2008 Olympic Equestrian Events official hotel
- Gold Circle Award by Agoda.com (2014-2015)
- Silver Benchmarking Certificate by EarthCheck (2014-2015)
- Indoor Air Quality Certificate – Good Class by Environmental Protection Department (2015)
- Golden Award (New Territories Area) in Rakuten Travel Award by Rakuten Travel (2015)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014-2015)
- Aji Bou Izakaya awarded Bronze Award (Asian Cuisine) in HKTB Outstanding QTS Merchant by Hong Kong Tourism Board (2015)
- Regal Terrace awarded Merit Award (Chinese Cuisine) in HKTB Outstanding QTS Merchant by Hong Kong Tourism Board (2015)





■ iSuite



■ iLounge



■ Hotel Lobby

## iclub WAN CHAI HOTEL

- A contemporary select-service hotel opened in December 2009
- Conveniently and centrally located in the commercial district of Wan Chai
- Within walking distance from the Wan Chai MTR Station and the Hong Kong Convention and Exhibition Centre
- 99 chic and trendy guestrooms and suites with interactive services and innovative facilities
- Cutting-edge style and comfort for tech-savvy business travellers
- The first carbon neutral hotel in Hong Kong, providing smoke-free environment to travellers
- Complimentary WiFi access and coffee/tea with snacks at iLounge
- 24-hour complimentary use of fitness equipment in Sweat Zone
- CarbonCare Champion - CarbonCare Label by Carbon Care Asia (2011-2015)

211 Johnston Road,  
Wan Chai, Hong Kong.

Tel: (852) 3669 8668

Fax: (852) 3669 8688

Email: [info@wanchai.iclub-hotels.com](mailto:info@wanchai.iclub-hotels.com)

Website: [www.iclub-hotels.com](http://www.iclub-hotels.com)

 99

 2009

 5,530 sq.m.

 5,326 sq.m.

 1

 1



■ iResidence



■ iLounge



■ Hotel Lobby



## iclub SHEUNG WAN HOTEL

138 Bonham Strand,  
Sheung Wan, Hong Kong.

Tel: (852) 3963 6100

Fax: (852) 3963 6122

Email: [info@sheungwan.iclub-hotels.com](mailto:info@sheungwan.iclub-hotels.com)

Website: [www.iclub-hotels.com](http://www.iclub-hotels.com)

- A contemporary select-service hotel opened in June 2014 with 248 chic and trendy guestrooms and suites
- Within walking distance from the Sheung Wan MTR Station and close to the Central Business District of Hong Kong
- Conveniently accessible to the Hong Kong Convention and Exhibition Centre, The Peak and the Hong Kong-Macau Ferry Terminal
- The contemporary sleek design with plenty of glass and diffused lighting, creates a refreshing and dynamic environment
- Offers discerning tech-savvy business and leisure travellers a relaxed lifestyle
- First hotel in Hong Kong to use Mobile Key Check-in Service
- With the innovative mobile key technology, guests will be given the options to use mobile device for check-in service or traditional key card or both to access their guestrooms
- Complimentary WiFi access and coffee/tea with snacks at iLounge
- 24-hour complimentary use of fitness equipment in Sweat Zone

 248

 2014

 9,600 sq.m.

 7,197 sq.m.

 1

 1





■ iSelect Premier



■ iLounge



■ Hotel Lobby

## iclub FORTRESS HILL HOTEL

- A contemporary select-service hotel opened in September 2014 with 338 chic and trendy guestrooms
- Centrally located amidst Hong Kong's famed Fortress Hill and North Point districts, a prime centre for business and entertainment, access to Causeway Bay in 5 minutes
- Offers Mobile Key Check-in Service
- 1-minute walk to the nearby Tram Station and 4-minute walk to the Fortress Hill MTR Station
- Tin Hau Food Square is within walking distance, featuring international cuisine and specialized local restaurants
- Offers discerning tech-savvy business and leisure travellers a completely smoke-free environment, style and comfort
- Complimentary WiFi access and coffee/tea with snacks at iLounge
- 24-hour complimentary use of fitness equipment in Sweat Zone

18 Merlin Street,  
North Point, Hong Kong.

Tel: (852) 3963 6300

Fax: (852) 3963 6322

Email: [info@fortresshill.iclub-hotels.com](mailto:info@fortresshill.iclub-hotels.com)

Website: [www.iclub-hotels.com](http://www.iclub-hotels.com)

 338

 2014

 9,400 sq.m.

 6,849 sq.m.

 1

 1

# REPORT OF THE REIT MANAGER

The Directors of the REIT Manager herein present their report together with the audited consolidated financial statements of Regal REIT and its subsidiaries (collectively, the “Group”) for the year ended 31st December, 2015.

## 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 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, 2015, 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 and iclub Fortress Hill 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 three iclub Hotels directly.

The Trustee of Regal REIT 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.

At the extraordinary general meeting held on 14th April, 2015, the Unitholders approved revisions to the Trust Deed to align with the amendments to the REIT Code that became effective in August 2014, allowing Regal REIT to undertake property development activities and to invest in certain financial instruments subject to prescribed thresholds and control measures. Details of these Trust Deed revisions were set out in the circular to the Unitholders dated 13th March, 2015.

## The RHIHL Lessee and the Hotel Manager

The leases of the Initial Hotels to Favour Link International Limited (the "RHIHL Lessee"), a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL", together with its relevant subsidiaries, collectively, the "RHIHL Group"), were originally contracted to expire on 31st December, 2015 under the relevant lease agreements (the "Initial Hotels Lease Agreements"). On 12th March, 2015, Regal REIT and the RHIHL Lessee entered into supplemental agreements amending each of the Initial Hotels Lease Agreements to extend the lease term of each Initial Hotels Lease Agreement for another five years to 31st December, 2020, with the market rental packages for the extended term continuing to be determined annually by a jointly appointed independent professional property valuer. Such extended term of each of the Initial Hotels Lease Agreements was approved by the independent Unitholders at an extraordinary general meeting held on 14th April, 2015. For the years 2011 to 2020, the rental packages in respect of the Initial Hotels are determined on a yearly basis by a jointly appointed independent professional property valuer (expenses to be split equally between the RHIHL Lessee and Regal REIT). The determinations include the amount of market rents (inclusive of the amount of base rent (the "Base Rent") for each Initial Hotel, the variable rent (the "Variable Rent") sharing percentage and the RHIHL Lessee's contributions to the furniture, fixtures and equipment (the "FF&E") reserve calculated as a percentage of total hotel revenue) to be applied for each of the Initial Hotels for the relevant respective years from 2011 to 2020, together with the amount of the security deposit required (collectively, the "Market Rental Package").

Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL, was appointed as the hotel manager (the "Hotel Manager") under long-term hotel management agreements to operate the Initial Hotels (the "Initial Hotels Management Agreements") for a term of 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 by Regal REIT.

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

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

## HOTEL PORTFOLIO

The portfolio of eight hotel properties of Regal REIT are strategically located in different districts in Hong Kong with easy and convenient access to the mass transit network and other public transportation networks, giving great convenience for hotel guests. The Regal REIT's hotel portfolio is comprised of two hotel types, namely, full service hotels, which offer a wide range of services including food and beverage outlets and other facilities, and select-service hotels, which offer contemporary design coupled with convenient accessibility and 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
		3,884	
<i>Select-service hotels:</i>			
iclub Wan Chai Hotel	Wan Chai	99	Self-operated
iclub Sheung Wan Hotel	Sheung Wan	248	Under Lease
iclub Fortress Hill Hotel	Fortress Hill	338	Under Lease
		685	
<b>Total</b>		<b>4,569</b>	

## 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 level of room occupancy. 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 Package**

Regal REIT received rental income, comprised of Base Rent and Variable Rent in respect of the Initial Hotels for the year 2015 from the RHIHL Lessee in accordance with the Market Rental Package 2015.

#### ***Base Rent***

For the year 2015, the aggregate Base Rent for the Initial Hotels was determined at HK\$763.0 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 Market Rental Package 2015, 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.

### ***Market Rental Package 2016***

An independent professional property valuer, Mr. David Faulkner, was jointly appointed by the lessors and the RHIHL Lessee in June 2015 to conduct rent reviews for the Initial Hotels for the year 2016. According to the determination of the Market Rental Package for the year 2016, the aggregate amount payable by the RHIHL Lessee as Base Rent was determined to be HK\$732.0 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 2016. 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, 2016, for an aggregate amount of HK\$183.0 million which is equivalent to three months Base Rent for the year 2016, issued by a licensed bank in Hong Kong. Details of the Market Rental Package for the year 2016 can be referred to in an announcement published by the REIT Manager on 24th September, 2015.

### **iclub Wan Chai Hotel – Revenue Structure**

#### ***Hotel Portion***

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

#### ***Non-hotel Portions***

iclub Wan Chai Hotel – Non-hotel portions, comprised of a portion of the ground floor and the 27th to 29th floors of the premises, are let out to independent third parties which generate monthly rental income.

### **iclub Sheung Wan Hotel – Rental Structure**

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

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

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

### **iclub Fortress Hill Hotel – Rental Structure**

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

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

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

### **Furniture, Fixtures & Equipment Reserve**

Regal REIT is obligated under the respective Initial Hotels Lease Agreements and the Wan Chai Hotel Management Agreement to maintain a reserve to fund expenditures for replacements of FF&E in the Initial Hotels and iclub Wan Chai Hotel – Hotel portion, respectively. During the 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 other income of the hotel properties) for each month. In 2015, HK\$38.6 million was contributed to the FF&E reserve with corresponding expenditures amounting to HK\$23.9 million having recorded for the purposes intended.

Pursuant to the SW Lease Agreement and the FH Lease Agreement, the RHIHL Lessee is required for the first three years of the lease term to fund the actual costs of any replacements and/or additional FF&E in the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel.

## REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2015 are set out in the consolidated financial statements.

### Review of the Economic Environment in 2015

As per the Global Economic Prospects report issued by the World Bank Group in January 2016, global economic growth again fell short of expectations, showing a mere gain of 2.4% in 2015 from 2.6% in 2014. The disappointing performance was mainly due to a continued deceleration of economic activity in emerging and developing economies amid weakening commodity prices, global trade, and capital flows.<sup>1</sup>

The recovery in the economies of major high-income countries gained traction last year. This has been increasingly driven by stronger domestic demand, particularly in the United States, where employment conditions are robust. In the Euro Area, credit growth is picking up and unemployment is declining. The recovery remains fragile in Japan despite substantial policy stimulus. With external demand negatively affected by a slowdown in large emerging market economies, growth forecasts across major high-income economies in 2016 have been scaled down, but growth should still show some improvement from 2015. The tightening cycle of the U.S. Federal Reserve is projected to be very gradual, while policy accommodation will likely continue in the Euro Area and Japan. China's gradual slowdown and rebalancing continued in 2015 as further deceleration in sectors with excess capacity was partially offset by robust growth in services.<sup>1</sup>

The China's economy grew at an annual rate of 6.8% in the fourth quarter of 2015, slightly down from 6.9% in the previous quarter and the weakest since the first quarter of 2009. This figure was in line with market expectations as strength in services and consumption offset weaker manufacturing and exports. For the full year of 2015, China's GDP expanded by 6.9%<sup>2</sup>, lower than the 7.3% in 2014, the weakest growth in 25 years.<sup>3</sup> Sectoral rebalancing in China became more pronounced in 2015. It was accompanied by bouts of volatility in financial markets and additional government stimulus measures. The deceleration in annual GDP reflects ongoing corrections in the property sector, weakness in industrial activity, and slower growth in non-traditional credit. The robust expansion of consumer spending and services has helped boost the economy, and is in line with the rebalancing sought by policymakers. Policies became more supportive throughout the course of 2015, in order to counter slowing activity. The People's Bank of China continued to lower benchmark interest rates and required reserve ratios, while implementing new collateral policies to facilitate refinancing for commercial banks. The central bank also continued to inject liquidity into the financial system, especially during the June 2015 stock market correction.<sup>1</sup>

As Hong Kong's economy is closely connected to Mainland China, only mild growth in the local economy occurred due to sectoral rebalancing in China. Hong Kong's GDP recorded a year-on-year growth of 2.4% for 2015<sup>4</sup> and, thereby, was 0.2 percentage point below the 2.6% in 2014. Weak external environments and strong US dollar exchange rate affected Hong Kong's external competitiveness. The Hong Kong dollar exchange rate also strengthened notably under the linked exchange rate system, and resulted for 2015 as a whole, total exports of goods and imports of goods recording decreases of 1.7% and 2.5%, respectively, in real terms from 2014.<sup>5</sup> The tourism industry softened, with a decline in both the number of visitor arrivals and the number of overnight visitors, negatively affecting the export of services performance. Fortunately, domestic demand held up well on the back of almost full employment.<sup>6</sup>

<sup>1</sup> Source: Publications, World Bank Group, "Global Economic Prospects – Spillovers amid Weak Growth", January 2016.

<sup>2</sup> Source: Markets, Reuters, "China fourth-quarter growth weakest since 2009 as policy misstep fears grow", 19th January, 2016.

<sup>3</sup> Source: Asia Economy, CNBC, "China revises down 2014 GDP to 7.3% from 7.4%", 6th September, 2015.

<sup>4</sup> Source: Hong Kong Economic Reports, www.hkeconomy.gov.hk "2015 Economic Background and 2016 Prospects", 24th February, 2016.

<sup>5</sup> Source: Press Release, Census and Statistics Department, "GDP by expenditure component for the fourth quarter and the whole year of 2015", 24th February, 2016.

<sup>6</sup> Source: Market Information, Bank of China (Hong Kong) Limited, "Hong Kong Economy Will Continue Its Moderate Growth Trend", December 2015.

## Visitor Arrivals in Hong Kong, 2015 versus 2014<sup>7</sup>

Visitors to Hong Kong by Geographical Regions	2015 (Percentage of total visitors)	2015 (No. of visitors)	2014 (No. of visitors)	Variance (No. of visitors)	Variance (%)
Mainland China	77.3%	45,842,360	47,247,675	(1,405,315)	(3.0%)
South & Southeast Asia	6.0%	3,559,058	3,614,789	(55,731)	(1.5%)
North Asia	3.9%	2,292,565	2,329,813	(37,248)	(1.6%)
Taiwan	3.4%	2,015,797	2,031,883	(16,086)	(0.8%)
Europe, Africa & the Middle East	3.7%	2,167,119	2,218,382	(51,263)	(2.3%)
The Americas	2.9%	1,728,094	1,679,083	49,011	2.9%
Australia, New Zealand & South Pacific	1.1%	681,162	715,479	(34,317)	(4.8%)
Macau SAR/Not identified	1.7%	1,021,441	1,001,732	19,709	2.0%
Totals	100.0%	59,307,596	60,838,836	(1,531,240)	(2.5%)
Overnight visitors included in above	45.0%	26,686,026	27,770,459	(1,084,433)	(3.9%)

During 2015, there was a setback in Hong Kong's tourism market. The visitor arrival numbers declined by approximately 1.5 million, showing a decrease of 2.5% year-on-year.

The initial effect of the "one trip per week" policy for Shenzhen residents, who are mostly sameday visitors, has, however, had no significant impact on the local hotel market. In addition to such circumstance, Mainland China visitors decreased and recorded a negative growth rate of 3.0%, with arrivals aggregating to approximately 45.8 million, representing 77.3% of the total visitor arrivals to Hong Kong in 2015.

Arrivals from short-haul markets comprising other Asian regions (including North Asia, South & Southeast Asia, Taiwan and Macau) were reported as 8.9 million and accounted for 15.0% of total arrivals. A negative growth rate of 1.0% was recorded for the short-haul markets when compared to 2014.

A similar situation for the long-haul markets showed a negative growth rate of 0.8% was recorded, with total arrivals amounting to approximately 4.6 million, reflecting the uncertain economic conditions. Visitors from the Americas, nevertheless, still displayed a moderate increase with a growth rate of 2.9% and representing 2.9% of the total number of visitors. On the other hand, arrivals from the European market declined. Overall, visitor arrivals from the European, Africa and the Middle East markets recorded a negative growth rate of 2.3%; with the visitor number reaching approximately 2.2 million and accounting for 3.7% 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 to about 26.7 million, representing 45.0% of total arrivals and a drop of 3.9% year-on-year.

<sup>7</sup> Source: Insights & Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Dec 2015", January 2016 "Visitor Arrival Statistics – Dec 2014", January 2015; the REIT Manager.

## Review of Hotel Room Supply in Hong Kong in 2015 and Forecast for 2016

In 2015, the hotel room supply in Hong Kong reported growth of 1.5% over 2014. This represented an annual increase of 1,125 units from 72,721 to 73,846 rooms. During the year under review, 9 new hotel properties were opened and the number of hotel properties rose from 244 to 253, posting year-on-year growth of 3.7%. Continuing increase in the new room supply in 2016 with 21 new hotels is anticipated. Room supply is projected to increase by 2,797 units. By the end of 2016, it is projected that the hotel room supply will reach 76,643, for an increase of about 3.8% over the preceding year.<sup>8</sup>

## Industry Performance

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

Category	Hong Kong Hotel Market Performance (2015 versus 2014) <sup>9</sup>					
	Room Occupancy Rates		Average Room Rates		RevPAR	
	2015	2014	2015	2014	2015	2014
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	<b>83</b>	86	<b>2,267</b>	2,452	<b>1,882</b>	2,109
High Tariff B	<b>88</b>	91	<b>1,067</b>	1,205	<b>939</b>	1,097
Medium Tariff	<b>87</b>	92	<b>677</b>	761	<b>589</b>	700
All Hotels	<b>86</b>	90	<b>1,337</b>	1,473	<b>1,150</b>	1,326

In 2015, the overall hotel occupancy rate reached 86.0% and was down by 4 percentage points when compared to 2014. The industry-wide average room rate also recorded a decrease of 9.2% year-on-year to HK\$1,337 per night. The resulting effect led to a decline of 13.3% on the industry-wide RevPAR or a decrease of HK\$176 year-on-year to HK\$1,150.

<sup>8</sup> Source: Insights & Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Dec 2015", February 2016; the REIT Manager.

<sup>9</sup> Source: Insights & Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Dec 2015", January 2016; the REIT Manager.



## Performance Highlights of Regal REIT

Regal REIT currently has an aggregate of 4,569 hotel guestrooms and suites in eight hotel properties, with a total gross floor area of approximately 230,465 square meters, that are strategically located in Hong Kong. The aggregate property valuation of Regal REIT's property portfolio amounted to HK\$22,072.0 million as at 31st December, 2015, representing a decrease of HK\$2,047.0 million as compared to the valuation of HK\$24,119.0 million as at 31st December, 2014. The decrease is largely attributable to the fair value drops in property valuations as a result of the softening hotel market for 2015. Overall, the occupancy rate of the property portfolio of Regal REIT was comparable to the average hotel market for 2015.

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

### Performance of the Initial Hotels

Total hotel revenue, gross operating profit ("GOP"), NPI and statistics for the combined Initial Hotels for FY2015 versus FY2014 are set out below.

	FY2015 HK\$'million	FY2014 HK\$'million	Variance HK\$'million	Variance (%)
<b>Operating Results</b>				
Room revenue	<b>1,228.8</b>	1,403.3	(174.5)	(12.4%)
Food and beverage revenue	<b>626.8</b>	581.1	45.7	7.9%
Other income	<b>39.0</b>	44.2	(5.2)	(11.8%)
Total hotel revenue	<b>1,894.6</b>	2,028.6	(134.0)	(6.6%)
Operating expenses	<b>(1,067.5)</b>	(1,078.6)	11.1	1.0%
Gross operating profit	<b>827.1</b>	950.0	(122.9)	(12.9%)
Other expenses	<b>(71.3)</b>	(72.7)	1.4	1.9%
Net rental income	<b>40.5</b>	40.8	(0.3)	(0.7%)
Net property income	<b>796.3</b>	918.1	(121.8)	(13.3%)
<b>Statistics</b>				
Average room rate	<b>HK\$1,006.40</b>	HK\$1,070.97	(HK\$64.57)	(6.0%)
Occupancy rate	<b>86.1%</b>	92.4%	(6.3%)	(6.8%)
RevPAR	<b>HK\$866.57</b>	HK\$989.40	(HK\$122.83)	(12.4%)
Total available room nights	<b>1,417,660</b>	1,418,025	(365)	(0.0%)
Occupied room nights	<b>1,220,689</b>	1,310,023	(89,334)	(6.8%)

During the year under review, total hotel revenue of the Initial Hotels achieved HK\$1,894.6 million (2014: HK\$2,028.6 million), representing a decrease of HK\$134.0 million or a drop of 6.6%. GOP and NPI attained HK\$827.1 million and HK\$796.3 million or decreases of HK\$122.9 million and HK\$121.8 million, respectively, as compared to the preceding year.

The average occupancy rate of the Initial Hotels attained 86.1%, posting a decrease of 6.3 percentage points as compared to the 92.4% recorded in the preceding year. While the year-on-year decrease was seen as a general trend for the hotel market in Hong Kong for 2015, the average occupancy rate of the Initial Hotels for 2H2015 stabilised and achieved almost 89.0% as compared to 83.0% for 1H2015. Under heavy market competition and the impact of a strong HK dollar against other major currencies, the average daily room rate of the Initial Hotels, posted a drop of 6.0% from HK\$1,070.97 in 2014 to HK\$1,006.40 in 2015. As a result, the RevPAR of the Initial Hotels showed a decrease of 12.4% from HK\$989.40 in 2014 to HK\$866.57 in 2015.

For 2015, the guest mix of the Initial Hotels was comprised mainly of 56% business travellers and 35% leisure travellers, with the business traveller proportion being higher than the 15% as reflected in the statistics published by the Hong Kong Tourism Board.<sup>10</sup> This proportion re-affirmed that the Initial Hotels continue to successfully attract business travellers to their full service commercial hotels in prime business locations. On the other hand, customer mix by origin recorded proportions of China, Asia and other regions of 39%, 44% and 17% respectively.

#### **Base Rent**

According to the 2015 Market Rental Package, Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis. During the year, Regal REIT earned and received an aggregate Base Rent of HK\$763.0 million, representing a monthly Base Rent of HK\$63.58 million.

#### **Variable Rent**

Likewise, Regal REIT received Variable Rent through the sharing of aggregate profits from the Initial Hotels' operations over the Base Rent payments. For the year under review, as the aggregate NPI from hotel operations of the Initial Hotels was HK\$796.3 million, Regal REIT was entitled to a Variable Rent of HK\$16.7 million based on 50% sharing of the excess of the aggregate NPI over the aggregate Base Rent.

<sup>10</sup> Source: Insights & Research, Hong Kong Tourism Board, "Visitors' Purpose of Visit by Major Market Areas", January 2016; the REIT Manager.

### ***Performance of iclub Wan Chai Hotel***

The iclub Wan Chai Hotel continued to display strong demand. The 2015 year-round average occupancy rate continued to stay close to 100%. However, due to the keen competition within the area as well as the relatively strong HK dollar versus other Asian currencies, the average room rate suffered a decrease of 17.8% from HK\$1,175.72 in 2014 to HK\$966.22 in 2015. On the other hand, the non-hotel portions of iclub Wan Chai Hotel, comprising the portion of the ground floor and other areas on the 27th to 29th floor of the premises, were leased to third party tenants.

#### **Hotel portion**

For the year ended 31st December, 2015, iclub Wan Chai Hotel - hotel portion contributed gross hotel revenue of HK\$34.9 million and incurred operating costs and expenses amounting to HK\$17.4 million.

#### **Non-hotel portions**

For the year ended 31st December, 2015, rental income of HK\$6.9 million was generated from the leasing of the non-hotel portions to third party tenants.

### ***Performance of iclub Sheung Wan Hotel***

The iclub Sheung Wan Hotel commenced hotel operations in June 2014 with its performance has ramped up steadily. For 2015, the hotel achieved an overall occupancy rate of 92.4% with a year-round average room rate of about HK\$819. During the year under review, Regal REIT received fixed rentals, as pre-determined in accordance with the terms of the SW Lease Agreement that took effect from the completion date of acquisition on 10th February, 2014.

During the year ended 31st December, 2015, Regal REIT received cash rentals of HK\$82.5 million; while accounting rental income of HK\$82.9 million was recognised on the straight-line basis.

### ***Performance of iclub Fortress Hill Hotel***

The iclub Fortress Hill Hotel commenced hotel operations in September 2014 and its performance is considered satisfactory for a new start-up hotel under tough market conditions. For 2015, the hotel achieved an overall occupancy rate of 80.5% with a year-round average room rate of about HK\$609. During the year under review, Regal REIT received fixed rentals, as pre-determined in accordance with the terms of the FH Lease Agreement that took effect from the completion date of acquisition on 28th July, 2014.

During the year ended 31st December, 2015, Regal REIT received cash rentals of HK\$84.3 million; while accounting rental income of HK\$86.5 million was recognised on the straight-line basis.

### **Capital Addition Projects**

Regal REIT undertakes, in addition to the FF&E reserve, the funding of capital addition projects with the objective to improving portfolio competitiveness and product offerings to enhance the income generating capability, profitability of the hotel property portfolio and special utilisation. 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. During the year, Regal REIT made capital commitments on major capital additions and completed renovation work for about 410 hotel rooms and other facilities for the Initial Hotels, and incurred capital expenditures of HK\$74.9 million.

## Net Rental and Hotel Income

The aggregate net rental and hotel income for Regal REIT for the year ended 31st December, 2015 (as compared to the prior year) is set out below.

	2015		2014	
	HK\$'million	%	HK\$'million	%
Initial Hotels				
Base Rent	<b>763.0</b>	<b>76.2</b>	743.0	74.2
Variable Rent	<b>16.7</b>	<b>1.7</b>	87.6	8.8
Other income	<b>10.8</b>	<b>1.1</b>	10.7	1.1
iclub Sheung Wan Hotel				
Rental income	<b>82.9</b>	<b>8.3</b>	73.8	7.3
iclub Fortress Hill Hotel				
Rental income	<b>86.5</b>	<b>8.6</b>	37.2	3.7
iclub Wan Chai Hotel				
Gross hotel revenue	<b>34.9</b>	<b>3.5</b>	42.7	4.3
Rental income	<b>6.9</b>	<b>0.6</b>	5.7	0.6
Gross rental and hotel income	<b>1,001.7</b>	<b>100.0</b>	1,000.7	100.0
Property operating expenses	<b>(12.7)</b>	<b>(1.3)</b>	(11.5)	(1.1)
Hotel operating expenses	<b>(17.4)</b>	<b>(1.7)</b>	(17.8)	(1.8)
Net rental and hotel income	<b>971.6</b>	<b>97.0</b>	971.4	97.1

During the year under review, net rental and hotel income represented 97.0% 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 and iclub Fortress Hill Hotel.

## 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 charge".

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. 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.

## Distributions for 2015

The Board of Directors of the REIT Manager has resolved to declare a final distribution of HK\$0.080 per Unit for the period from 1st July, 2015 to 31st December, 2015. Together with the interim distribution of HK\$0.074 per Unit for the period from 1st January, 2015 to 30th June, 2015, total distributions per Unit for 2015 will amount to HK\$0.154, representing a yield of 7.94% based on the Unit closing price of HK\$1.94 on the last trading day of 2015. The final distribution of HK\$0.080 per Unit will be payable to Unitholders on the Register of Unitholders on 17th May, 2016.

Total Distributable Income for the year ended 31st December, 2015 was HK\$550.3 million. Total distributions for the year, including the interim distribution of HK\$241.0 million and the final distribution of HK\$260.6 million, will amount to HK\$501.6 million or 91.2% of the Total Distributable Income for the year.

### Closure of Register of Unitholders

The Register of Unitholders will be closed from Friday, 13th May, 2016 to Tuesday, 17th May, 2016, 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 Thursday, 12th May, 2016. The relevant distribution warrants are expected to be despatched on or about 25th May, 2016.

### Valuation of the Property Portfolio

As at 31st December, 2015, Regal REIT's overall property portfolio was valued at HK\$22,072.0 million (31st December, 2014: HK\$24,119.0 million). The property portfolio is comprised of (i) the five Initial Hotels, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the non-hotel portions of iclub Wan Chai Hotel that are classified as investment properties; and (ii) the owner-operated hotel portion of iclub Wan Chai Hotel which is classified as property, plant and equipment.

Valuations of the properties as at 31st December, 2015 and 31st December, 2014 are tabulated below.

Property	Location	31 Dec 2015 Valuation HK\$ million	31 Dec 2014 Valuation HK\$ million	% Change
<i>Initial Hotels:</i>				
Regal Airport Hotel	Lantau Island	3,420	3,480	-1.7%
Regal Hongkong Hotel	HK Island	3,770	4,180	-9.8%
Regal Kowloon Hotel	Kowloon	5,090	5,480	-7.1%
Regal Oriental Hotel	Kowloon	1,790	2,160	-17.1%
Regal Riverside Hotel	New Territories	4,260	4,700	-9.4%
		<b>18,330</b>	20,000	-8.4%
<i>iclub Hotels:</i>				
iclub Wan Chai Hotel	HK Island	801	889	-9.9%
iclub Sheung Wan Hotel	HK Island	1,440	1,580	-8.9%
iclub Fortress Hill Hotel	HK Island	1,501	1,650	-9.0%
<b>Overall property portfolio</b>		<b>22,072</b>	<b>24,119</b>	-8.5%

The valuations of the property portfolio as at 31st December, 2015 were conducted by Colliers International (Hong Kong) Limited ("Colliers"), the new principal valuer of Regal REIT appointed by the Trustee with a term of three years commencing in December 2015 to succeed Savills Valuation and Professional Services Limited on its retirement pursuant to the provisions of the REIT Code.

Colliers, an independent professional property valuer, assessed the market values of the property portfolio subject to the lease agreements, hotel operations and the hotel management agreements and in accordance with "The HKIS Valuation Standards (2012 Edition)", the Listing Rules and the REIT Code. Colliers 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. At 31st December, 2015, Regal REIT had unsecured notes due in 2018 for an aggregate nominal principal amount of HK\$1,937.7 million and bank loan facilities of up to HK\$6,555.0 million with different maturity terms.

### **Regal REIT Medium Term Note Programme and Notes Issuance**

In January 2013, Regal REIT announced the establishment and listing of a US\$1.0 billion medium term note programme (the "MTN Programme") which was intended to serve as a funding platform to finance the planned expansion of Regal REIT.

As at 31st December, 2015, the outstanding notes issued in March 2013 and May 2013 have an aggregate nominal principal amount of HK\$1,937.7 million, with maturity in March 2018 and May 2018, respectively.

### **Loan Financing**

As at 31st December, 2015, Regal REIT had loan facilities aggregating HK\$6,555.0 million, comprised of: (a) a term loan facility of HK\$4,500.0 million secured by three of the five Initial Hotels; (b) a term loan facility of HK\$440.0 million secured by the iclub Wan Chai Hotel; (c) term and revolving loan facilities of up to HK\$790.0 million secured by the iclub Sheung Wan Hotel; and (d) term and revolving loan facilities of up to HK\$825.0 million secured by the iclub Fortress Hill Hotel.

### ***Financing for the Initial Hotels***

The agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$300.0 million (the "2013 IH Facilities") was entered into on 23rd July, 2013 by Regal REIT, through wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, for a term of five years to July 2018, and is secured by three of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel. The 2013 IH Facilities bear Hong Kong Interbank Offered Rate (HIBOR)-based interest. On 23rd July, 2015, Regal REIT cancelled the HK\$300.0 million revolving loan facility under the 2013 IH Facilities as it had other unutilised revolving loan facilities available which bear lower rates of interest.

As at 31st December, 2015, the outstanding amount under the 2013 IH Facilities was HK\$4,500.0 million, comprising the full amount of the term loan facility.



### ***Financing for iclub Wan Chai Hotel***

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

As at 31st December, 2015, the outstanding amount on the 2014 WC Facility was HK\$440.0 million.

### ***Financing for iclub Sheung Wan Hotel***

On 10th February, 2014, Regal REIT, through 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, secured by the iclub Sheung Wan Hotel (the "2014 SW Facilities"). The 2014 SW Facilities, used primarily to complete the acquisition of the iclub Sheung Wan Hotel after deduction of the deposit of HK\$948.0 million from the purchase consideration, have a term of five years to February 2019.

As at 31st December, 2015, the utilised 2014 SW Facilities amounted to HK\$632.0 million.

### ***Financing for iclub Fortress Hill Hotel***

On 28th July, 2014, 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, secured by the iclub Fortress Hill Hotel (the "2014 FH Facilities"). The 2014 FH Facilities, arranged primarily to complete the acquisition of the iclub Fortress Hill Hotel after deduction of the refundable cash collateral of HK\$990.0 million from the purchase consideration, have a term of five years to July 2019.

As at 31st December, 2015, the utilised 2014 FH Facilities amounted to HK\$660.0 million under the term loan facility and part of the revolving loan facility amounted to HK\$70.0 million.

### **Managing Fluctuations in Interest Rates**

In order to hedge against fluctuations in interest rates, Regal REIT entered into certain interest rate swap arrangements covering the period from 2012 to March 2015. As at 31st December, 2015, the interest costs in respect of the aggregate loan facilities are all subject to floating HIBOR-based interest. The REIT Manager monitors the market interest rate trends and is continuously assessing any need to hedge against the floating HIBOR for the remaining period of the respective loan tenors.

## Gearing and Cash

As at 31st December 2015, the gearing ratio of Regal REIT was 37.1% (2014: 33.9%), being the gross amount of the outstanding loans and debts aggregating HK\$8,239.7 million, which takes into account: (a) the debts in relation to the notes issued in March 2013 and May 2013 under the MTN Programme for an aggregate amount of HK\$1,937.7 million; (b) the 2013 IH Facilities of HK\$4,500.0 million; (c) the 2014 WC Facility of HK\$440.0 million; (d) the 2014 SW Facilities of HK\$632.0 million; and (e) the 2014 FH Facilities of HK\$730.0 million, as compared to the total gross assets of Regal REIT of HK\$22,190.4 million, which is below the maximum 45% permitted under the REIT Code.

As at 31st December, 2015, Regal REIT had a total of HK\$37.2 million in unrestricted and HK\$46.4 million in restricted cash balances and bank deposits, and unutilised revolving loan facilities of HK\$253.0 million after the cancellation of the HK\$300.0 million revolving loan facility under the 2013 IH Facilities. Regal REIT maintains adequate cash reserves and revolving loan facilities and receives timely payments of rental income to satisfy its financial commitments as well as working capital requirements on an on-going basis.

As at 31st December, 2015, six of the eight Regal REIT's properties, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Riverside Hotel, iclub Wan Chai Hotel, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel, with an aggregate carrying value of HK\$15,192.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

## OUTLOOK FOR 2016

According to the Managing Director of the International Monetary Fund, Ms. Christine Lagarde, global economic growth will be "disappointing" and uneven in 2016. The prospect of rising interest rates in the United States and an economic slowdown in China are contributing to uncertainty and a higher risk of economic vulnerability worldwide. In addition, growth in global trade has slowed considerably and a decline in raw material prices is posing problems for economies based thereon, while the financial sectors in many countries still have weaknesses and financial risks are rising in emerging markets.<sup>11</sup>

Hong Kong's economic environment showed an annual GDP growth of 2.4% for 2015 which was 0.2 percentage point below the growth rate in 2014.<sup>4</sup> The unemployment rate (seasonally adjusted) of Hong Kong for the last quarter of 2015 was 3.3% which maintained stable at a relatively low level.<sup>12</sup> Hong Kong's economic growth will be largely unchanged in 2016 from this year's performance according to a report by Bank of China (Hong Kong) Limited. For 2016, Hong Kong's economic growth is projected to be at 2.5% as it continues to be influenced by a strong US dollar and a slowdown in the tourism market. According to the same report, the inflation rate for 2016 is expected to see a year-on-year rise of 2.2%. Despite a conservative outlook about Hong Kong's external trade and tourism industry, growth for the financial industry is expected to remain robust in 2016.<sup>6</sup>

<sup>11</sup> Source: Economy, CNBC, "Global growth will be disappointing in 2016: Lagarde", 30th December, 2015.

<sup>12</sup> Source: Press Release, Census and Statistics Department, "Unemployment and underemployment statistics for October – December 2015", 19th January, 2016.

Though the economic performance in 2016 for Hong Kong is expected to be moderate, there are still several positive factors to support the development of the economy. Firstly, the conditions necessary for rate hikes following that of the US have not materialised for banks in Hong Kong. Given the ample liquidity in Hong Kong, the interbank rates in Hong Kong will likely remain low for an extended period. Therefore, banks in Hong Kong have conditions not to fully follow the US rate hikes and also have certain deferral buffers available in 2016. This will help alleviate the impact of higher interest rates on the overall economy, investment and property markets in Hong Kong. Secondly, Hong Kong property market is only expected to consolidate modestly as long as low lending rates are maintained. Thirdly, Hong Kong's employment market is expected to remain stable. There is, however, no doubt that the import-export trade, tourism and retail sectors of Hong Kong are now facing rising challenges, which could also have negative impacts on their respective employment segments. However, this gap can be compensated by the other service sectors and it is believed that unless the global economy turns down rapidly and affects Hong Kong's economy, the probabilities of massive layoffs and sharp rises in unemployment rate are low.<sup>6</sup>

As per the 2016 Policy Address by the Chief Executive, Mr. C Y Leung, the Proposal on Formulating the National 13th Five-Year Plan (the "Proposal") promulgated by the Central Authorities in November 2015 expressed clear support for Hong Kong in leveraging our unique advantages to enhance our role and functions in the country's economic development and opening up to other countries, as well as in consolidating our status as international financial, transportation and trade centres, and in participating in our country's two-way opening up and in the Belt and Road Initiative. The Proposal clearly supports Hong Kong in strengthening our status as the global offshore Renminbi business hub and in promoting high value-added financing services, business and commerce, logistics and professional services, etc. At the same time, the Proposal states that the Mainland will step up efforts to further open up its markets to Hong Kong and Macao and expedite development of Guangdong-Hong Kong-Macao co-operation with particular regard to Qianhai, Nansha, and Hengqin, etc., and enhance co-operation and exchanges between the Mainland and Hong Kong/Macao in the areas of social policies, livelihood issues, technology, culture, education, environmental protection, etc., as well as deepen regional co-operation in the Pan-Pearl River Delta Region.<sup>13</sup>

For the tourism sector, it is expected that the Hong Kong Government will continue to implement various measures and initiatives to advance the industry up the value chain. The Government will highlight the unique and diversified experiences Hong Kong offers and showcase our gourmet culture<sup>14</sup>. As per the 2016 Policy Address, the Government will carry forward its on-going initiatives on the following six areas: (a) Continuing with the drafting of legislation for establishing the Travel Industry Authority to implement a new regulatory framework for the tourism industry; (b) Overseeing the business development and operation of the Kai Tak Cruise Terminal, continuing to support Hong Kong Tourism Board's ("HKTB") promotion of cruise tourism and working closely with the Advisory Committee on Cruise Industry and the trade to develop Hong Kong into a leading cruise hub in the region; (c) Supporting the HKTB in its continuing promotion work in target source markets, particularly the markets relating to meetings, conventions and exhibitions, and incentive travels; (d) Facilitating Ocean Park in its implementation of the waterpark and hotel projects; (e) Overseeing the expansion of Hong Kong Disneyland, which includes a new themed area and a new hotel with a theme dedicated to the spirit of exploration, to ensure completion of the two projects in 2016 and 2017, respectively; and (f) Discussing with The Walt Disney Company the Phase 2 development of the Hong Kong Disneyland Resort.<sup>15</sup> In addition, the Government will also promote cultural and creative tourism, organise mega events, and draw more conventions and exhibitions to Hong Kong.<sup>14</sup>

<sup>13</sup> Source: Policy Address, 2016 Policy Address, "The National 13th Five-Year Plan", 13th January, 2016.

<sup>14</sup> Source: Policy Address, 2016 Policy Address, "Tourism", 13th January, 2016.

<sup>15</sup> Source: Policy Agenda, 2016 Policy Address, "Chapter 1 – Economic Development and Innovation and Technology", 13th January, 2016.

As Mainland China tourists represented over 77% of the total number of visitors to Hong Kong in 2015<sup>7</sup>, China's Central Government and the Hong Kong Government are performing regular reviews of the Individual Visit Scheme to maintain a stable and orderly development of the tourism industry of Hong Kong. In order to maintain Hong Kong to be the hub of Asia for worldwide travellers, the 2016 Policy Address clearly stated that the Hong Kong Government is planning to start a number of new initiatives in different areas to promote business and economic development. The Government will continue to strengthen Hong Kong's relations with trading partners to secure better access to their markets. In particular, the Government will assist our business and service industries in tapping the Mainland market by taking advantage of the Mainland and Hong Kong Closer Economic Partnership Arrangement. Meanwhile, the Government will continue to actively promote high value-added logistics, maritime and aviation services, and collaborate with the industries to reinforce and enhance Hong Kong's position as an international maritime and aviation centre, including its role as a global aviation hub.<sup>15</sup> It is believed that the local tourism and hotel industries will benefit from these business and economic promotions.

## 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 the asset 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.

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 monitor target markets for opportunities, 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-back, 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 three 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 three iclub Hotels during the year.

## MAJOR CONTRACTORS

In 2015, 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	1,617	5.4%
Regal Hotels International Limited	Marketing fees	349	1.1%
Paliburg Estate Management Limited	Building management fees	540	1.8%
		<u>2,506</u>	<u>8.3%</u>

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

## ANNUAL GENERAL MEETING

The 2016 Annual General Meeting of Regal REIT will be convened on Tuesday, 17th May, 2016. 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 2015 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, 22nd March, 2016

# DIRECTOR AND EXECUTIVE OFFICER PROFILES

## DIRECTOR PROFILES

**Mr. Lo Yuk Sui**, aged 71, 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 45 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 January 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 Mr. Jimmy Lo Chun To and Miss Lo Po Man.

**Miss Lo Po Man**, aged 36, 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 function 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 48, Executive Director and Responsible Officer – Mr. Chen joined the REIT Manager as the Director – Asset Management in July 2014. He was appointed as an Executive Director with effect from 26th August, 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 Bachelor’s degree in administrative studies and a Bachelor of Arts degree (major in mathematics for commerce) from York University, Canada. He is a fellow member of the Hong Kong Institute of Directors, a member of the Chinese People’s Political Consultative Conference, Yuexiu District, Guangzhou City, China, and a member of Hong Kong Securities and Investment Institute. Mr. Chen has over 20 years of business development, trading, property investment, development and management experience. He is currently a non-executive director of Silver Base Group Holdings Limited, which is listed on the Hong Kong Stock Exchange. Prior to joining the REIT Manager, Mr. Chen was the Vice President - Business Development of Century City Holdings Limited, a subsidiary of CCIHL, from May 2013 to July 2014. Prior to that, he held various management and controller positions in different major Hong Kong companies and multinational corporations, including Faithful Trading (H.K.) Ltd, Gome Home Appliances (HK) Limited and Chevalier Group.



**Mr. Simon Lam Man Lim**, aged 59, 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, 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 (formerly known as The Link Management Limited) (the REIT manager of Link REIT), Johnson Electric, Motorola Asia Pacific Limited and Philips Electronics Group.

**Mr. John William Crawford, JP**, aged 73, 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 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 of Entertainment Gaming Asia Inc. which is listed on the NASDAQ.

**Mr. Donald Fan Tung**, aged 59, 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 involved in the property development, architectural design and project management functions as well as overseeing the building construction business of the PHL group.

**Mr. Alvin Leslie Lam Kwong Wai**, aged 71, Independent Non-executive Director – Mr. Lam was appointed as an Independent Non-executive Director of the REIT Manager in 2006. He is the chairman and an executive director of Golden Resources Development International Limited, which is listed on the Hong Kong Stock Exchange. He holds a Master of Business Administration degree from the University of California, Berkeley, U.S.A.. He has extensive experience in financial management and investment planning.

**Mr. Jimmy Lo Chun To**, aged 42, 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, a vice chairman and the managing director of PHL and 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 CCIHL group's property projects in the People's Republic of China and he also 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. Kenneth Ng Kwai Kai**, aged 61, 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 66, 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 January 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, GBS, JP**, aged 70, 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 director of The Hong Kong Mortgage Corporation Limited and a non-executive director of the Mandatory Provident Fund Schemes Authority. He is the vice chairman, independent non-executive director and audit committee member 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, ITC Corporation Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, NWS Holdings Limited, PHL and SJM Holdings Limited and the chairman and independent non-executive director of Chuang's China Investments Limited, all of which are companies listed on the Hong Kong Stock Exchange. He also currently acts as an independent non-executive director of Hop Hing Group Holdings Limited, Lai Fung Holdings Limited, MTR Corporation Limited and TUS International Limited (formerly known as Jinheng Automotive Safety Technology 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. Yip Yat Wa**, Responsible Officer and Senior Property and Technical Manager – Mr. Yip is responsible for, among other things, monitoring the actual completion of the asset enhancement programme from a technical point of view, receiving and interpreting technical reports and keeping the Executive Directors informed of the ongoing progress of the programme. He is also responsible for reviewing proposals from the Hotel Manager in relation to capital additions projects, expenditures for the replacement of furniture, fixtures and equipment and assisting the Executive Directors to assess the justification and feasibility of such expenditures. Furthermore, he inspects and reviews all potential and new acquisitions from a structural and technical point of view. Mr. Yip has over 30 years of engineering experience. He has been involved in several large projects, responsible for coordinating and monitoring building services installations and builder's work, maintenance, repairs and renovation work for hotels and commercial buildings.

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

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

# CORPORATE GOVERNANCE REPORT

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

## AUTHORISATION STRUCTURE

Regal REIT is a collective investment scheme authorised by the Securities and Futures Commission (the "SFC") under section 104 of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") and regulated by the provisions of the Code on Real Estate Investment Trusts (the "REIT Code") and constituted by a trust deed (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. Yip Yat Wa were duly appointed 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.

## 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.



## Board Composition

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

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

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

The Board presently comprises two Executive Directors, five Non-executive Directors and four Independent Non-executive Directors. The positions of Chairman and Chief Executives 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

Alvin Leslie Lam Kwing Wai

Kai Ole Ringenson

Abraham Shek Lai Him, GBS, JP

In accordance with the Compliance Manual, the independent non-executive Directors of the REIT Manager, namely, Mr. John William Crawford, Mr. Alvin Leslie Lam Kwing Wai, Mr. Kai Ole Ringenson and Hon. Abraham Shek Lai Him, who had served on the Board for more than nine years from the date of their first appointment, were re-elected as the independent non-executive Directors by the Unitholders on 14th April, 2015.

The names and biographical details of the Directors, together with any relationships among them, are disclosed in the preceding section "Director 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 Independent Non-executive Director is nine years. If such Independent Non-executive Director has served on the Board for more than nine years, his 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for assessing the independence of a Non-executive director.

## Change of Information of Director

Subsequent to publication of the 2015 interim report of Regal REIT, the REIT Manager was informed of the following changes of Director's information:

Name of Director	Details of changes
Hon. Abraham Shek Lai Him	Ceased to be an independent non-executive director of Dorsett Hospitality International Limited with effect from 11th March, 2016.

## Continuous Professional Development of Directors

During the year under review, the Directors have participated in certain continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant.

## 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 two general meetings of the Unitholders were held during the year ended 31st December, 2015 and the attendance rates of the individual Board members were as follows:

Name of Directors	Attendance/ No. of General Meetings	Attendance/ No. of Board Meetings
<i>Chairman and Non-executive Director</i>		
Lo Yuk Sui	2/2	4/4
<i>Vice Chairman and Non-executive Director</i>		
Lo Po Man	2/2	4/4
<i>Executive Directors</i>		
Johnny Chen Sing Hung	2/2	4/4
Simon Lam Man Lim	2/2	4/4
<i>Non-executive Directors</i>		
Donald Fan Tung	2/2	4/4
Jimmy Lo Chun To	2/2	3/4
Kenneth Ng Kwai Kai	2/2	4/4
<i>Independent Non-executive Directors</i>		
John William Crawford, JP	2/2	4/4
Alvin Leslie Lam Kwing Wai	2/2	4/4
Kai Ole Ringenson	2/2	4/4
Abraham Shek Lai Him, GBS, JP	2/2	4/4

## AUDIT COMMITTEE

The REIT Manager established the Audit Committee which is appointed by the Board and adopted its terms of reference in 2006. The Audit Committee currently comprises the following Directors:

### *Independent Non-executive Directors*

John William Crawford, JP (Chairman of the Committee)

Alvin Leslie Lam Kwing Wai

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 external auditors including the approval of their 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, 2015 to consider and review, among other things, the 2014 final results, the 2015 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:

<b>Name of Audit Committee Members</b>	<b>Attendance/ No. of Meetings</b>
John William Crawford, JP (Chairman of the Committee)	4/4
Alvin Leslie Lam Kwing Wai	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, 2015 to consider and review, among other things, the 2014 final results announcement, the 2014 annual report, the 2015 interim results announcement, the 2015 interim report and other corporate disclosure issues of Regal REIT. The attendance rates of the individual members were as follows:

<b>Name of Disclosure Committee Members</b>	<b>Attendance/ No. of Meetings</b>
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



## AUDITORS' REMUNERATION

The remuneration to Messrs. Ernst & Young, the external auditors of Regal REIT, in respect of the audit and non-audit services rendered for the year ended 31st December, 2015 were HK\$1.7 million (2014: HK\$1.6 million) and HK\$0.5 million (2014: HK\$0.3 million), respectively. The non-audit services include interim review of the financial statements of the Group for the six months ended 30th June, 2015 and compliance and other services to the Group.

## REPORTING AND TRANSPARENCY

Regal REIT prepares its financial statements in accordance with the generally accepted accounting principles in Hong Kong with a financial year ending 31st December and 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' RIGHT

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).

## AMENDMENT TO THE TRUST DEED

On 14th April, 2015, the Unitholders approved revisions to the Trust Deed to align with the amendments to the REIT Code that became effective in August 2014 at an extraordinary general meeting, which allows Regal REIT to undertake property development activities and to invest in certain financial instruments subject to prescribed thresholds and control measures. On the same date, Regal REIT and the Trustee entered into the seventh supplemental deed to effect such amendments to the REIT Code.

## **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 price-sensitive 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 price-sensitive information should caution those Directors or the REIT Manager who are not so privy that there may be unpublished price-sensitive 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, 2015.

## RISK MANAGEMENT AND INTERNAL CONTROL

The REIT Manager has an internal audit function in place to provide independent assessment of the REIT Manager's risk management and internal control systems and operational functions, and review of their effectiveness on an ongoing basis. The Internal Auditor prepares annual internal audit plans and conducts audit reviews focusing on operational and compliance controls of Regal REIT and effective implementation of the risk management and internal control systems and compliance procedures.

During the year, the Board has, through the Audit Committee and the Internal Auditor, conducted reviews of the effectiveness of the risk management and internal control systems of Regal REIT, including financial, operational and compliance controls and risk management functions, and considered such systems are effective and adequate.

## PUBLIC FLOAT

As at 31st December, 2015, 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, 2015.

## COMPLIANCE

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

## FOREIGN ACCOUNT TAX COMPLIANCE ACT

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

## 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, 2015, in conjunction with Regal REIT's external auditors. This Annual Report was approved by the Board of the REIT Manager on 22nd March, 2016.

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, 2015 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's external auditors, Messrs. Ernst & Young, about their reporting responsibilities on the financial statements of Regal REIT for the year ended 31st December, 2015 is set out in the section "Independent Auditors' 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) Savills Valuation and Professional Services Limited (“Savills”), the retired principal valuer of Regal REIT, and companies within the same group or otherwise “associated” with Savills, and Colliers International (Hong Kong) Ltd (“Colliers”), the new principal valuer of Regal REIT, and companies within the same group and otherwise “associated” with Colliers (collectively, the “Valuer Connected Persons Group”).

### RHIHL CONNECTED PERSONS GROUP

#### (a) Initial Hotels Lease Agreements

Each of Bauhinia Hotels Limited, Cityability Limited, Gala Hotels Limited, Regal Riverside Hotel Limited and Ricobem Limited, in relation to Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel, Regal Riverside Hotel and Regal Kowloon Hotel, the direct owners of the Initial Hotels, respectively, (collectively, the “Initial Hotel – Property Companies” and each referred to as the “Initial Hotel – Property Company”) entered into separate Initial Hotels Lease Agreements with Favour Link International Limited (the “RHIHL Lessee”) in relation to the leasing of the Initial Hotels on 16th March, 2007 (as amended by first supplemental lease agreement on 12th February, 2010). On 12th March, 2015, each of the Initial Hotel – Property Companies had entered into (a) the second supplemental lease agreement in respect of each Initial Hotel with the RHIHL Lessee to: (i) extend the original term of each of the Initial Hotels Lease Agreement, which expired on 31st December, 2015, by a further five years from 1st January, 2016 to 31st December, 2020 (the “Extended Period”). As a result, the total lease term of each Initial Hotels Lease Agreement is now from the Listing Date to 31st December, 2020; and (ii) amend the formula for calculating the amount of the security deposit during the Extended Period, (together, the “Lease Extension/Amendment”); and (b) the first supplemental lease guarantee in respect of each Initial Hotel with the Trustee and RHIHL to make consequential amendments in light of the Lease Extension/Amendment, so that RHIHL’s obligation to maintain a third party guarantee will cover the Extended Period and track changes to the formula for calculating the amount of the security deposit under the Lease Extension/Amendment. The above-mentioned second supplemental lease agreements and the first supplemental lease guarantees became effective upon the independent Unitholders’ approval having been obtained at the extraordinary general meeting of Regal REIT held on 14th April, 2015. References can be made to the related announcements dated 13th March, 2015 and 14th April, 2015 and the related circular to Unitholders dated 13th March, 2015, as published by the REIT Manager for further details of this continuing connected party transaction. The RHIHL Lessee is a member of the RHIHL Connected Persons Group.

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

During the year, total contractual lease income under the Initial Hotels Lease Agreements amounted to approximately HK\$790.5 million including Base Rent, Variable Rent and other income.

**(b) Initial Hotels Management Agreements**

Under the terms of each Initial Hotels Lease Agreement, the RHIHL Lessee has delegated the operation and management of the relevant Initial Hotel to Regal Hotels International Limited (the “Hotel Manager”) by entering into the Initial Hotels Management Agreement among (1) the relevant Initial Hotel – Property Company, (2) the RHIHL Lessee, (3) the Hotel Manager, (4) Regal Asset Holdings Limited and (5) RHIHL, for a term of 20 years from 16th March, 2007.

Each Initial Hotel – Property Company is a party to 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.

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

**(c) Initial Hotels Lease Guarantees**

RHIHL has guaranteed to pay all amounts from time to time owing or payable by the RHIHL Lessee to the Initial Hotel – Property Companies under the Initial Hotels Lease Agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs by entering the lease guarantees (as amended by first supplemental lease guarantee on 12th March, 2015) (the “Initial Hotels Lease Guarantees”). The Initial Hotels Lease Guarantees also contain indemnities in respect of all guaranteed liabilities.

**(d) Initial Hotels Deed of Trade Mark Licence**

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

**(e) Wan Chai Hotel Management Agreement**

On 23rd December, 2010, Regal REIT (via Sonnix Limited (the “iclub Wan Chai Hotel – Property Company”)) entered into the Wan Chai Hotel Management Agreement with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of iclub Wan Chai Hotel for a 10-year term commencing on 1st January, 2011 and expiring on 31st December, 2020, at management fees comprised of a base fee which is equal to 2% of the gross hotel revenue derived from iclub Wan Chai Hotel and incentive fees equal to 5% of the excess of the gross operating profit of iclub Wan Chai Hotel over the base fee and certain fixed charges for each fiscal year during the term of the Wan Chai Hotel Management Agreement.

During the year, total management fees under the Wan Chai Hotel Management Agreement amounted to approximately HK\$1.6 million.

**(f) SW Lease Agreement**

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

During the year, total contractual cash rental receipts under the SW Lease Agreement amounted to approximately HK\$82.5 million.

**(g) SW Lease Guarantee**

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

**(h) SW Hotel Management Agreement**

On 10th February, 2014, Regal REIT (via the iclub Sheung Wan Hotel – Property Company) entered into a new hotel management agreement (the “SW Hotel Management Agreement”) with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of iclub Sheung Wan Hotel for a 10-year term commencing on 10th February, 2014. The Hotel Manager is engaged to act as the exclusive operator and manager of the iclub Sheung Wan Hotel to supervise, direct and control the management, operation and promotion of the business of the iclub Sheung Wan Hotel during the operating term of the SW Hotel Management Agreement.

**(i) FH Lease Agreement**

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

During the year, total contractual cash rental receipts under the FH Lease Agreement amounted to approximately HK\$84.3 million.

**(j) FH Lease Guarantee**

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

**(k) FH Hotel Management Agreement**

On 28th July, 2014, Regal REIT (via the iclub Fortress Hill Hotel – Property Company) entered into a new hotel management agreement (the “FH Hotel Management Agreement”) with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of iclub Fortress Hill Hotel for a 10-year term commencing on 28th July, 2014. The Hotel Manager is engaged to act as the exclusive operator and manager of the iclub Fortress Hill Hotel to supervise, direct and control the management, operation and promotion of the business of the iclub Fortress Hill Hotel during the operating term of the FH Hotel Management Agreement.

## REIT Manager Fees

Regal Portfolio Management Limited, a member of the RHIHL Connected Persons Group, was appointed as the REIT Manager of Regal REIT. REIT Manager fees aggregating approximately HK\$96.2 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").

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

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

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

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



## TRUSTEE CONNECTED PERSONS GROUP

### Corporate Finance Transactions

On 11th January, 2013, R-REIT International Finance Limited (the "Issuer"), a special purpose vehicle wholly-owned by Regal REIT, established a US\$1.0 billion medium term note (the "Notes") programme (the "MTN Programme"). The Notes may be issued by the Issuer from time to time, and will be guaranteed by the Trustee. A fiscal and paying agency agreement dated 11th January, 2013 relating to the MTN Programme entered into by the Issuer, the Trustee (as guarantor), Deutsche Bank AG, Hong Kong Branch (as fiscal agent, transfer agent, paying agent and, in respect of each series of CMU Notes, as registrar), Deutsche Bank Luxembourg S.A. (as register in respect of each series of Notes other than the CMU Notes) and Deutsche Bank AG, Hong Kong Branch (as the CMU lodging and paying agent). Deutsche Bank Luxembourg S.A. and Deutsche Bank AG, Hong Kong Branch, are both members of the Trustee Connected Persons Group, provide registrar, fiscal, paying and transfer agency services to Regal REIT in connection with the MTN Programme and the Notes issued thereunder for an annual fee of US\$6,000.

### Ordinary Banking Services

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

### Trustee Fees

DB Trustees (Hong Kong) Limited, a member of the Trustee Connected Persons Group, was appointed as the Trustee of Regal REIT. Trustee fees aggregating approximately HK\$3.4 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**

Savills, a member of the Valuer Connected Persons Group, was appointed as the principal valuer of Regal REIT for the period from December 2012 to November 2015. During the year, amounts of HK\$0.26 million and HK\$0.16 million, respectively, were charged for the valuation and other services.

Colliers, a member of the Valuer Connected Persons Group, was appointed as the new principal valuer of Regal REIT to succeed Savills for a term of three years commencing in December 2015. During the year, an amount of HK\$0.43 million in aggregate was charged for the valuation services.

### **CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS**

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

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

## DISCLOSURE OF INTERESTS

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

### HOLDINGS OF SIGNIFICANT UNITHOLDERS

As at 31st December, 2015, the following Significant Unitholders (as defined in paragraph 8.1 of the REIT Code) (not being a director or chief executive of the REIT Manager) had an interest in the Units as recorded in the register required to be kept under section 336 of the SFO:

Name of Significant Unitholders	Total number of issued Units held	Approximate percentage of the issued Units as at 31st December, 2015 <sup>(x)</sup>
Century City International Holdings Limited ("CCIHL")	2,443,033,102 (Note i)	74.99%
Century City BVI Holdings Limited ("CCBVI")	2,443,033,102 (Notes i & ii)	74.99%
Paliburg Holdings Limited ("PHL")	2,440,346,102 (Notes iii & iv)	74.92%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,440,346,102 (Notes iii & v)	74.92%
Regal Hotels International Holdings Limited ("RHIHL")	2,439,613,739 (Notes vi & vii)	74.89%
Regal International (BVI) Holdings Limited ("RBVI")	2,439,613,739 (Notes vi & viii)	74.89%
Complete Success Investments Limited	1,817,012,072 (Note ix)	55.78%
Great Prestige Investments Limited	373,134,326 (Note ix)	11.45%

Notes:

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

- (iv) PHL is a listed subsidiary of CCBVI, which held an approximately 62.23% shareholding interest in PHL as at 31st December, 2015, and its interests in Units are deemed to be the same interests held by CCBVI.
- (v) PDBVI is a wholly-owned subsidiary of PHL and its interests in Units are deemed to be the same interests held by PHL.
- (vi) The interests in 2,439,613,739 Units held by each of RHIHL and RBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI and Cosmopolitan, respectively.
- (vii) RHIHL is a listed subsidiary of PDBVI, which held an approximately 66.87% shareholding interest in RHIHL as at 31st December, 2015, and its interests in Units are deemed to be the same interests held by PDBVI.
- (viii) RBVI is a wholly-owned subsidiary of RHIHL and its interests in Units are deemed to be the same interests held by RHIHL.
- (ix) These companies are wholly-owned subsidiaries of RBVI and their respective direct interests in Units are deemed to be the same interests held by RBVI.
- (x) The approximate percentages were calculated based on 3,257,431,189 Units in issue as at 31st December, 2015.

Save as disclosed herein, there were no other persons who, as at 31st December, 2015, had interests in Units which are recorded in the register required to be kept under section 336 of the SFO.

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

As at 31st December, 2015, the interests of the REIT Manager, directors and chief executives of the REIT Manager in Units, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the REIT Manager and the Stock Exchange pursuant to the Model Code in the Listing Rules, were as follows:

Name of the REIT Manager and Director of the REIT Manager	Total number of issued Units held	Approximate percentage of the issued Units as at 31st December, 2015 <sup>(iii)</sup>
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 58.64% shareholding interest as at 31st December, 2015.
- (ii) Regal Portfolio Management Limited is the Manager of Regal REIT (as defined under the REIT Code).
- (iii) The approximate percentages were calculated based on 3,257,431,189 Units in issue as at 31st December, 2015.

Save as disclosed herein, as at 31st December, 2015, none of the REIT Manager, the directors and the chief executives of the REIT Manager had any interests in Units, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code to be notified to the REIT Manager and the Stock Exchange. Save for the interests of the Significant Unitholders, the REIT Manager and the Director of the REIT Manager (also being the Connected Persons of the Regal REIT) in Units as disclosed herein, the REIT Manager is not aware of any other Connected Persons of Regal REIT holding any Units.

# AUDITED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31st December, 2015

	Notes	2015 HK\$'000	2014 HK\$'000
<b>REVENUE</b>			
Gross rental revenue	5	966,855	958,058
Gross hotel revenue	5	34,865	42,653
		<u>1,001,720</u>	<u>1,000,711</u>
Property and hotel operating expenses		<u>(30,126)</u>	<u>(29,340)</u>
Net rental and hotel income	5	971,594	971,371
Interest and other income	6	1,055	28,980
Depreciation	12	(8,357)	(8,531)
Fair value changes on investment properties	13	(2,049,472)	(266,929)
REIT Manager fees	7	(96,224)	(134,699)
Trust, professional and other expenses	8	(10,080)	(14,607)
Finance costs – excluding distributions to Unitholders	9	<u>(215,291)</u>	<u>(217,832)</u>
<b>PROFIT/(LOSS) BEFORE TAX AND DISTRIBUTIONS TO UNITHOLDERS</b>		<b>(1,406,775)</b>	357,753
Income tax expense	10	<u>(121,046)</u>	<u>(119,299)</u>
<b>PROFIT/(LOSS) FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS</b>		<b>(1,527,821)</b>	238,454
Finance costs – distributions to Unitholders		<u>(527,704)</u>	<u>(511,417)</u>
<b>LOSS FOR THE YEAR, AFTER DISTRIBUTIONS TO UNITHOLDERS</b>		<b><u>(2,055,525)</u></b>	<b><u>(272,963)</u></b>
<b>EARNINGS/(LOSS) PER UNIT ATTRIBUTABLE TO UNITHOLDERS</b>			
Basic and diluted	11	<u>HK\$(0.469)</u>	<u>HK\$0.073</u>



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2015

	Notes	2015 HK\$'000	2014 HK\$'000
<b>PROFIT/(LOSS) FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS</b>		<b>(1,527,821)</b>	238,454
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Changes in fair values of cash flow hedges		<b>(341)</b>	(3,954)
Transfer from hedging reserve to consolidated statement of profit or loss		<b>1,059</b>	6,010
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		<b>718</b>	2,056
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Loss on revaluation of property	12	<b>(91,705)</b>	(790)
Income tax effect	22	<b>15,131</b>	131
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		<b>(76,574)</b>	(659)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>		<b>(75,856)</b>	1,397
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS</b>		<b>(1,603,677)</b>	239,851

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2015

	Notes	31st December, 2015 HK\$'000	31st December, 2014 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	12	592,000	691,000
Investment properties	13	21,480,000	23,428,000
Total non-current assets		22,072,000	24,119,000
<b>Current assets</b>			
Accounts receivable	14	26,232	56,457
Prepayments, deposits and other receivables	15	4,918	5,795
Due from related companies	27(b)	2,844	—
Tax recoverable		760	—
Restricted cash	16	46,447	47,156
Cash and cash equivalents	17	37,217	59,094
Total current assets		118,418	168,502
<b>Total assets</b>		22,190,418	24,287,502
<b>Current liabilities</b>			
Accounts payable	18	88,885	94,292
Deposits received		770	124
Due to related companies	27(b)	45	6,199
Other payables and accruals		38,576	37,216
Interest-bearing bank borrowings	19	70,000	63,000
Derivative financial instruments	21	—	2,024
Tax payable		22,612	32,015
Total current liabilities		220,888	234,870
<b>Net current liabilities</b>		(102,470)	(66,368)
<b>Total assets less current liabilities</b>		21,969,530	24,052,632

	Notes	31st December, 2015 HK\$'000	31st December, 2014 HK\$'000
<b>Non-current liabilities, excluding net assets attributable to Unitholders</b>			
Interest-bearing bank borrowings	19	<b>6,187,059</b>	6,170,739
Other borrowings	20	<b>1,929,295</b>	1,926,604
Deposits received		<b>2,659</b>	2,653
Deferred tax liabilities	22	<b>479,328</b>	450,066
Total non-current liabilities		<b>8,598,341</b>	8,550,062
<b>Total liabilities, excluding net assets attributable to Unitholders</b>			
		<b>8,819,229</b>	8,784,932
<b>Net assets attributable to Unitholders</b>			
		<b>13,371,189</b>	15,502,570
<b>Number of Units in issue</b>			
	23	<b>3,257,431,189</b>	3,257,431,189
<b>Net asset value per Unit attributable to Unitholders</b>			
	24	<b>HK\$4.105</b>	HK\$4.759

The consolidated financial statements on pages 61 to 112 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 22nd March, 2016 and were signed on its behalf by:

**SIMON LAM MAN LIM**  
Executive Director

**LO YUK SUI**  
Chairman

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31st December, 2015

	Units HK\$'000	Capital reserve HK\$'000	Hedging reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>Net assets as at 1st January, 2015</b>	<b>8,432,356</b>	<b>15,876</b>	<b>(718)</b>	<b>226,813</b>	<b>6,828,243</b>	<b>15,502,570</b>
Loss for the year	—	—	—	—	(1,527,821)	(1,527,821)
Other comprehensive income/(loss) for the year:						
Cash flow hedges	—	—	718	—	—	718
Loss on revaluation of property, net of tax	—	—	—	(76,574)	—	(76,574)
Total comprehensive loss for the year, before distributions to Unitholders	—	—	718	(76,574)	(1,527,821)	(1,603,677)
Transfer of depreciation on hotel properties	—	—	—	(2,004)	2,004	—
Finance costs – distributions to Unitholders	—	—	—	—	(527,704)	(527,704)
<b>Net assets as at 31st December, 2015</b>	<b>8,432,356</b>	<b>15,876</b>	<b>—</b>	<b>148,235</b>	<b>4,774,722</b>	<b>13,371,189</b>

For the year ended 31st December, 2014

	Units HK\$'000	Capital reserve HK\$'000	Hedging reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>Net assets as at 1st January, 2014</b>	<b>8,432,356</b>	<b>15,876</b>	<b>(2,774)</b>	<b>229,769</b>	<b>7,098,909</b>	<b>15,774,136</b>
Profit for the year	—	—	—	—	238,454	238,454
Other comprehensive income/(loss) for the year:						
Cash flow hedges	—	—	2,056	—	—	2,056
Loss on revaluation of property, net of tax	—	—	—	(659)	—	(659)
Total comprehensive income for the year, before distributions to Unitholders	—	—	2,056	(659)	238,454	239,851
Transfer of depreciation on hotel properties	—	—	—	(2,297)	2,297	—
Finance costs – distributions to Unitholders	—	—	—	—	(511,417)	(511,417)
<b>Net assets as at 31st December, 2014</b>	<b>8,432,356</b>	<b>15,876</b>	<b>(718)</b>	<b>226,813</b>	<b>6,828,243</b>	<b>15,502,570</b>

## DISTRIBUTION STATEMENT

For the year ended 31st December, 2015

	Notes	2015 HK\$'000	2014 HK\$'000
<b>Profit/(loss) for the year, before distributions to Unitholders</b>		<b>(1,527,821)</b>	238,454
Adjustments:			
Difference in accounting rental income and contractual cash rental income		<b>(2,642)</b>	(5,456)
Amounts set aside for the furniture, fixtures and equipment reserve	(d)	<b>(38,589)</b>	(41,425)
Amortisation of debt establishment costs		<b>17,999</b>	19,144
Fair value changes on investment properties		<b>2,049,472</b>	266,929
Depreciation		<b>8,357</b>	8,531
Foreign exchange differences, net		<b>(835)</b>	318
Deferred tax charge		<b>44,393</b>	46,429
<b>Distributable income for the year</b>	(a) & (b)	<b>550,334</b>	532,924
		<b>HK\$</b>	<b>HK\$</b>
<b>Distributions per Unit:</b>			
Interim	(a)	<b>0.074</b>	0.074
Final	(b) & (c)	<b>0.080</b>	0.088
		<b>0.154</b>	0.162

### Notes:

- (a) Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's total distributable income as defined in the Trust Deed ("Total Distributable Income") for each financial year. The current policy of the REIT Manager is to distribute to Unitholders no less than 90% of Regal REIT's Total Distributable Income for each financial year. The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. The REIT Manager on this basis made an interim distribution of HK\$0.074 per Unit for the six months ended 30th June, 2015, resulting in a total amount of interim distribution of HK\$241.0 million.



- (b) Pursuant to the Trust Deed, the REIT Manager determines the date (the "Record Date") in respect of each distribution period for the purpose of establishing Unitholder entitlements to distributions. The Record Date has been set as 17th May, 2016 in respect of the final distribution for the period from 1st July, 2015 to 31st December, 2015. The final distribution will be paid out to Unitholders on or about 25th May, 2016. The total amount of final distribution to be paid to Unitholders of HK\$260.6 million is arrived at based on the final distribution per Unit of HK\$0.080 and the number of Units expected to be in issue at the Record Date that are entitled to distributions. The total amount of the distributions to Unitholders for the year, being the total of the interim distribution of HK\$241.0 million and the final distribution of HK\$260.6 million, amounted to HK\$501.6 million or 91.2% of the Total Distributable Income for the year.
- (c) The final distribution of HK\$0.080 per Unit for the period from 1st July, 2015 to 31st December, 2015, involving an amount of HK\$260.6 million, was resolved and declared by the REIT Manager on 22nd March, 2016. 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, 2016. The final distribution for the period from 1st July, 2014 to 31st December, 2014 of HK\$286.7 million is included in the amount of distributions paid during the year as reported in the current year consolidated financial statements.
- (d) 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"), and iclub Wan Chai Hotel aggregated HK\$38.6 million (2014: HK\$41.4 million).

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2015

	Notes	2015 HK\$'000	2014 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax and distributions to Unitholders		<b>(1,406,775)</b>	357,753
Adjustments for:			
Difference in accounting rental income and contractual cash rental income	5	<b>(2,642)</b>	(5,456)
Fair value changes on investment properties	13	<b>2,049,472</b>	266,929
Interest income	6	<b>(220)</b>	(28,980)
Finance costs - excluding distributions to Unitholders	9	<b>215,291</b>	217,832
Depreciation	12	<b>8,357</b>	8,531
		<b>863,483</b>	816,609
Decrease in accounts receivable		<b>32,867</b>	3,896
Decrease/(increase) in prepayments, deposits and other receivables		<b>877</b>	(3,730)
Decrease/(increase) in amounts due from related companies		<b>(2,844)</b>	209
Increase in restricted cash		<b>(6)</b>	(104)
Decrease in accounts payable		<b>(5,407)</b>	(37,644)
Increase in deposits received		<b>652</b>	104
Increase/(decrease) in amounts due to related companies		<b>(6,154)</b>	6,199
Increase/(decrease) in other payables and accruals		<b>2,096</b>	(2,037)
		<b>885,564</b>	783,502
<b>Cash generated from operations</b>		<b>885,564</b>	783,502
Interest received		<b>220</b>	222
Interest paid		<b>(198,322)</b>	(195,630)
Hong Kong profits tax paid		<b>(86,816)</b>	(47,203)
		<b>600,646</b>	540,891
<b>Net cash flows from operating activities</b>		<b>600,646</b>	540,891
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		<b>(1,062)</b>	(321)
Additions to investment properties		<b>(101,472)</b>	(84,929)
Acquisitions of investment properties		—	(3,230,000)
Decrease in deposits		—	1,948,000
Decrease/(increase) in restricted cash		<b>(4,446)</b>	4,678
Interest received		—	44,986
		<b>(106,980)</b>	(1,317,586)
<b>Net cash flows used in investing activities</b>		<b>(106,980)</b>	(1,317,586)

	Notes	2015 HK\$'000	2014 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank borrowings, net of debt establishment costs		<b>230,000</b>	1,953,254
Repayment of bank borrowings		<b>(223,000)</b>	(654,400)
Distributions paid		<b>(527,704)</b>	(511,417)
Decrease in restricted cash		<b>5,161</b>	138
<b>Net cash flows from/(used in) financing activities</b>		<b>(515,543)</b>	787,575
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(21,877)</b>	10,880
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>59,094</b>	48,214
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>37,217</b>	59,094
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	17	<b>37,217</b>	59,094

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

### 1. GENERAL

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

The principal activity of Regal REIT and its subsidiaries (collectively, the "Group") is to own and invest in income-producing hotels, serviced apartments or commercial properties (including office properties) 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 include the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code. The consolidated financial statements have been prepared under the historical cost convention, except for property, plant and equipment, investment properties and derivative financial instruments 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.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31st December, 2015. 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 revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19

*Defined Benefit Plans: Employee Contributions*

*Annual Improvements to HKFRSs 2010-2012 Cycle*

*Annual Improvements to HKFRSs 2011-2013 Cycle*

Other than as explained below regarding the impact of *Annual Improvements to HKFRSs 2010-2012 Cycle* and *Annual Improvements to HKFRSs 2011-2013 Cycle*, the adoption of the above revised standards has had no significant financial effect on these financial statements.

- (a) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:
  - *HKFRS 8 Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets that an asset revaluation can be performed in one of the following ways:
    - (i) adjusting the gross carrying amount of the asset to market value; or
    - (ii) determining the market value of the carrying amount and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value
 In addition, it clarifies that the accumulated depreciation or amortisation is the difference between the gross carrying amount and the carrying amount of the asset.
  
  - HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.
- (b) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:
- HKFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as Regal REIT is not a joint arrangement and the Group did not form any joint arrangement during the year.
  - HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.
  - HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group did not acquire any investment property during the year and so this amendment is not applicable.



## 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.

HKFRS 9	<i>Financial Instruments</i> <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>1</sup>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>1</sup>
HKFRS 14	<i>Regulatory Deferral Accounts</i> <sup>3</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>2</sup>
Amendments to HKAS 1	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>1</sup>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> <sup>1</sup>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> <sup>1</sup>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2016

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2018

<sup>3</sup> Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1st January, 2016 and therefore is not applicable to the Group

<sup>4</sup> No mandatory effective date is determined but is available for early adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1st January, 2018. The Group is currently assessing the impact of the standard.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1st January, 2018. The Group expects to adopt HKFRS 15 on 1st January, 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in HKAS 1;
- (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1st January, 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1st January, 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

## 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, investment properties and derivative financial instruments 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, property, plant and equipment, and derivative financial instruments, and for 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 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 rate used for hotel properties is over the lease term (for land) and over the shorter of the lease term and 2.5% (for building together with furniture, fixtures and equipment).

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

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

### **Investment properties**

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



## Investments and other financial assets

### *Initial recognition and measurement*

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

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

### *Subsequent measurement of loans and receivables*

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

## Derecognition of financial assets

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

### *Financial assets carried at amortised cost*

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

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

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

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

## **Financial liabilities**

### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. The net fair value gain or loss recognised in the consolidated statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

#### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings 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 included in finance costs 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 or 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.

## **Derivative financial instruments and hedge accounting**

### *Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the consolidated statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts recognised in other comprehensive income are transferred to the consolidated statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

#### *Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged items. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

### **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 nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable profit 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 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 profit 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 that it is no longer probable that sufficient taxable profit 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 that it has become probable that sufficient taxable profit 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 that are 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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **Operating leases**

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

### **Revenue recognition**

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

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

### **Foreign currency transactions**

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

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

#### Judgements

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

##### *Operating lease commitments – Group as lessor*

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

##### *Classification between investment properties and owner-occupied properties*

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

## Estimation uncertainty

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

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

The fair value of each investment property and 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 discounted cash flow analysis and the capitalisation of income approach as its primary methods, supported by the direct comparison method. 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 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, including 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.

## 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 and the iclub Fortress Hill Hotel; and (ii) the mixed use property segment which invested in the iclub Wan Chai Hotel and is made up of the hotel portion and non-hotel portions.

The operating segments of the Group for the year ended 31st December, 2015 are as follows:

	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
<b>Segment revenue</b>			
Gross rental revenue	959,966	6,889	966,855
Gross hotel revenue	—	34,865	34,865
Total	<u>959,966</u>	<u>41,754</u>	<u>1,001,720</u>
<b>Segment results</b>	<u>947,793</u>	<u>23,801</u>	<u>971,594</u>
Fair value changes on investment properties	(2,060,472)	11,000	(2,049,472)
Depreciation	—	(8,357)	(8,357)
Interest and other income			1,055
REIT Manager fees			(96,224)
Trust, professional and other expenses			(10,080)
Finance costs - excluding distributions to Unitholders			(215,291)
Loss before tax and distributions to Unitholders			<u>(1,406,775)</u>

The operating segments of the Group for the year ended 31st December, 2014 are as follows:

	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
<b>Segment revenue</b>			
Gross rental revenue	952,301	5,757	958,058
Gross hotel revenue	—	42,653	42,653
Total	<u>952,301</u>	<u>48,410</u>	<u>1,000,711</u>
<b>Segment results</b>	<u>941,252</u>	<u>30,119</u>	<u>971,371</u>
Fair value changes on investment properties	(284,929)	18,000	(266,929)
Depreciation	—	(8,531)	(8,531)
Interest and other income			28,980
REIT Manager fees			(134,699)
Trust, professional and other expenses			(14,607)
Finance costs - excluding distributions to Unitholders			(217,832)
Profit before tax and distributions to Unitholders			<u>357,753</u>

### Segment assets and liabilities

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

As at 31st December, 2015, the Group's segment assets, comprised of aggregate fair values of the investment properties and property, plant and equipment in the hotel properties segment and the mixed use property segment, amounted to HK\$21,271,000,000 (2014: HK\$23,230,000,000) and HK\$801,000,000 (2014: HK\$889,000,000), respectively.

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

### Other segment information

	Year ended 31st December, 2015		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditures	<u>97,657</u>	<u>1,062</u>	<u>98,719</u>
	Year ended 31st December, 2014		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditures	<u>84,929</u>	<u>321</u>	<u>85,250</u>

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

### Information about a major customer

Revenue of HK\$959,966,000 (2014: HK\$952,301,000) was derived from the lease of the hotel properties to a single lessee which is a related company.

### Geographical information

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

## 5. NET RENTAL AND HOTEL INCOME

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

The net rental and hotel income represents the aggregate of:

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

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

	<b>Notes</b>	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
<b>Gross rental revenue</b>			
Rental income			
– Initial Hotels	(a)	<b>779,669</b>	830,572
– iclub Wan Chai Hotel – Non-hotel portions		<b>6,889</b>	5,757
– iclub Sheung Wan Hotel	(b)	<b>82,874</b>	73,792
– iclub Fortress Hill Hotel	(c)	<b>86,546</b>	37,227
Other income		<b>10,877</b>	10,710
		<b>966,855</b>	958,058
Property operating expenses		<b>(12,731)</b>	(11,539)
<b>Net rental income</b>		<b>954,124</b>	946,519
<b>Gross hotel revenue</b>			
Hotel operating expenses		<b>34,865</b>	42,653
		<b>(17,395)</b>	(17,801)
<b>Net hotel income</b>		<b>17,470</b>	24,852
<b>Net rental and hotel income</b>		<b>971,594</b>	971,371



Notes:

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

	2015 HK\$'000	2014 HK\$'000
Base Rent	763,000	743,000
Variable Rent	16,669	87,572
	<u>779,669</u>	<u>830,572</u>

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

	2015 HK\$'000	2014 HK\$'000
Contractual cash rental income	82,515	70,301
Difference in accounting rental income and contractual cash rental income	359	3,491
	<u>82,874</u>	<u>73,792</u>

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

	2015 HK\$'000	2014 HK\$'000
Contractual cash rental income	84,263	35,262
Difference in accounting rental income and contractual cash rental income	2,283	1,965
	<u>86,546</u>	<u>37,227</u>

## 6. INTEREST AND OTHER INCOME

	2015 HK\$'000	2014 HK\$'000
Bank interest income	220	222
Interest income on deposits	—	28,758
Foreign exchange differences, net	835	—
	<u>1,055</u>	<u>28,980</u>

## 7. REIT MANAGER FEES

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Base Fees	<b>66,578</b>	72,863
Variable Fees	<b>29,646</b>	29,536
Acquisition Fees	—	32,300
	<b><u>96,224</u></b>	<u>134,699</u>

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

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

For the financial year 2015, the REIT 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 9th December, 2014.

## 8. TRUST, PROFESSIONAL AND OTHER EXPENSES

	2015 HK\$'000	2014 HK\$'000
Auditors' remuneration:		
Audit fees	1,670	1,640
Non-audit fees	533	305
Legal and other professional fees	2,476	5,629
Trustee fees	3,449	4,058
Valuation fees	690	990
Foreign exchange differences, net	—	318
Other expenses	1,262	1,667
	<u>10,080</u>	<u>14,607</u>

Regal REIT did not appoint any directors and the Group did not engage any employees during the year (2014: Nil) and, accordingly, no director and employee benefit expenses were incurred during the year (2014: Nil).

## 9. FINANCE COSTS - EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

	2015 HK\$'000	2014 HK\$'000
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on interest-bearing bank borrowings	113,179	109,110
Interest expense on other borrowings	81,556	81,566
Amortisation of debt establishment costs	17,999	19,144
	<u>212,734</u>	209,820
Fair value changes on derivative financial instruments		
– cash flow hedges (transfer from hedging reserve)	1,059	6,010
Others	1,498	2,002
	<u>215,291</u>	<u>217,832</u>

## 10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Charge for the year	<b>76,889</b>	73,820
Overprovision in prior years	<b>(236)</b>	(950)
Deferred (note 22)	<b>44,393</b>	46,429
Total tax charge for the year	<b><u>121,046</u></b>	<u>119,299</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% (2014: 16.5%) to the tax charge at the Group's effective tax rate is as follows:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Profit/(loss) before tax and distributions to Unitholders	<b><u>(1,406,775)</u></b>	<u>357,753</u>
Tax charge/(credit) at the statutory tax rate	<b>(232,118)</b>	59,029
Adjustments in respect of current tax of previous periods	<b>(236)</b>	(950)
Income not subject to tax	<b>(36)</b>	(4,782)
Expenses not deductible for tax	<b>352,798</b>	64,614
Others	<b>638</b>	1,388
Tax charge at the Group's effective rate	<b><u>121,046</u></b>	<u>119,299</u>

## 11. 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\$1,527,821,000 (2014: earnings of HK\$238,454,000) and the weighted average of 3,257,431,189 Units (2014: 3,257,431,189 Units) in issue during the year. The basic loss per Unit attributable to Unitholders for the year amounted to HK\$0.469 (2014: basic earnings per Unit attributable to Unitholders of HK\$0.073).

The diluted loss per Unit attributable to Unitholders is the same as the basic loss per Unit attributable to Unitholders as there were no dilutive instruments in issue during the year (2014: Nil).

## 12. PROPERTY, PLANT AND EQUIPMENT

	<b>Hotel properties HK\$'000</b>
At 1st January, 2014	700,000
Additions	321
Deficit on revaluation	(790)
Depreciation provided during the year	(8,531)
	<hr/>
At 31st December, 2014 and 1st January, 2015	<b>691,000</b>
Additions	<b>1,062</b>
Deficit on revaluation	<b>(91,705)</b>
Depreciation provided during the year	<b>(8,357)</b>
	<hr/>
At 31st December, 2015	<b><u>592,000</u></b>

The Group's property, plant and equipment represents the value of land and building together with furniture, fixtures and equipment of iclub Wan Chai Hotel for the hotel portion. The REIT Manager has determined that the property, plant and equipment constitute one class of asset (i.e. hotel property) based on the nature, characteristics and risks of the property. The property, plant and equipment was valued by Colliers International (Hong Kong) Limited ("Colliers"), an independent property valuer and the principal valuer of Regal REIT, at HK\$592,000,000 as at 31st December, 2015 (2014: HK\$691,000,000). A revaluation deficit of HK\$91,705,000 (2014: HK\$790,000) resulting from the valuation as at 31st December, 2015 has been charged to other comprehensive income.

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

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

The carrying amount of the Group's property, plant and equipment would have been HK\$414,473,000 (2014: HK\$419,368,000) 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 171.

### 13. INVESTMENT PROPERTIES

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

	<b>Hotel properties HK\$'000</b>	<b>Commercial properties HK\$'000</b>	<b>Total HK\$'000</b>
At 1st January, 2014	20,200,000	180,000	20,380,000
Additions	3,230,000	—	3,230,000
Fair value changes	(284,929)	18,000	(266,929)
Capital expenditures for the year	84,929	—	84,929
At 31st December, 2014 and 1st January, 2015	<b>23,230,000</b>	<b>198,000</b>	<b>23,428,000</b>
Fair value changes	<b>(2,060,472)</b>	<b>11,000</b>	<b>(2,049,472)</b>
Capital expenditures for the year	<b>97,657</b>	—	<b>97,657</b>
Other addition	<b>3,815</b>	—	<b>3,815</b>
At 31st December, 2015	<b><u>21,271,000</u></b>	<b><u>209,000</u></b>	<b><u>21,480,000</u></b>

The Group's investment properties were valued by Colliers at HK\$21,480,000,000 as at 31st December, 2015 (2014: HK\$23,428,000,000). The investment properties are leased to a related company and other commercial tenants under operating leases, further details of which are included in note 25(a) to the consolidated financial statements.

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

Three of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel, together with iclub Sheung Wan Hotel and iclub Fortress Hill Hotel have been pledged to secure banking facilities granted to the Group (note 19).

Further particulars of the Group's investment properties are included on pages 170 to 171.



#### 14. ACCOUNTS RECEIVABLE

	2015 HK\$'000	2014 HK\$'000
Difference in accounting rental income and contractual cash rental income	8,098	5,456
Variable Rent receivables	16,669	49,724
Other accounts receivable	1,465	1,277
	<u>26,232</u>	<u>56,457</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 due within 3 months. The Group has no accounts receivable that are past due at the end of the reporting period.

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

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

#### 15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Prepayments	357	548
Deposits and other receivables	4,561	5,247
	<u>4,918</u>	<u>5,795</u>

Deposits in the amount of HK\$1,212,000 (2014: 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.

## 16. RESTRICTED CASH

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

## 17. CASH AND CASH EQUIVALENTS

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.

## 18. ACCOUNTS PAYABLE

	2015 HK\$'000	2014 HK\$'000
Amounts due to related companies	88,670	93,917
Other accounts payable	215	375
	<u>88,885</u>	<u>94,292</u>

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

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

## 19. INTEREST-BEARING BANK BORROWINGS

	2015 HK\$'000	2014 HK\$'000
Interest-bearing bank borrowings	6,302,000	6,295,000
Debt establishment costs	(44,941)	(61,261)
	<u>6,257,059</u>	<u>6,233,739</u>
Portion classified as current liabilities	(70,000)	(63,000)
Non-current portion	<u>6,187,059</u>	<u>6,170,739</u>
Analysed into bank loans repayable:		
Within one year	70,000	63,000
In the third to fifth years, inclusive	<u>6,187,059</u>	<u>6,170,739</u>
	<u>6,257,059</u>	<u>6,233,739</u>

The agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$300.0 million (the "2013 IH Facilities") was entered into on 23rd July, 2013 by Regal REIT, through wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, for a term of five years to July 2018, and is secured by three of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel. On 23rd July, 2015, Regal REIT cancelled the HK\$300.0 million revolving loan facility under the 2013 IH Facilities as it had other unutilised revolving loan facilities available which bear lower rates of interest. As at 31st December, 2015, the outstanding amount under the 2013 IH Facilities was HK\$4,500.0 million, comprising the full amount of the term loan facility. The Group entered into interest rate swap arrangements to hedge against interest rate exposure for the term loan facilities for a notional amount of HK\$3.0 billion, details of which are set out in note 21.

On 22nd December, 2014, a term loan facility agreement for a principal amount of HK\$440.0 million (the "2014 WC Facility") was entered into, for a term of five years to December 2019 by Sonnix Limited, a wholly-owned subsidiary of Regal REIT. The 2014 WC Facility, secured by the iclub Wan Chai Hotel, was fully drawn with the proceeds having been applied mainly for the repayment of the previous term loan facility which was entered into in 2012. As at 31st December, 2015, the outstanding amount on the 2014 WC Facility was HK\$440.0 million.

On 10th February, 2014, 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 "2014 SW Facilities"), secured by the iclub Sheung Wan Hotel. The 2014 SW Facilities have a term of five years to February 2019. As at 31st December, 2015, the utilised 2014 SW Facilities amounted to HK\$632.0 million.

On 28th July, 2014, 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 "2014 FH Facilities"), secured by the iclub Fortress Hill Hotel. The 2014 FH Facilities have a term of five years to July 2019. As at 31st December, 2015, the utilised 2014 FH Facilities amounted to HK\$660.0 million under the term loan facility and part of the revolving loan facility amounted to HK\$70.0 million.

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

Bank borrowings under the 2013 IH Facilities, the 2014 WC Facility, the 2014 SW Facilities and the 2014 FH Facilities are guaranteed by Regal REIT and/or certain individual companies of the Group on a joint and several basis.

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

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

## 20. OTHER BORROWINGS

	2015 HK\$'000	2014 HK\$'000
Other borrowings repayable in the third to fifth years, inclusive, at nominal amount	1,937,650	1,938,550
Discount and issue costs	<u>(8,355)</u>	<u>(11,946)</u>
	<u><b>1,929,295</b></u>	<u><b>1,926,604</b></u>

Subsequent to the establishment and listing of the US\$1.0 billion medium term note programme, in March 2013, a series of unsecured 5-year term notes for an aggregate amount of HK\$775.0 million at a coupon interest rate of 4.125% per annum were issued. The notes were issued at 99.44% of the nominal amount after discount. In May 2013, another series of unsecured 5-year term notes for an aggregate amount of US\$150.0 million at a coupon interest rate of 4.10% per annum were issued. The notes were issued at 99.553% of the nominal amount after discount.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

	Liabilities	
	2015 HK\$'000	2014 HK\$'000
Interest rate swaps – cash flow hedges	—	2,024
Portion classified as current liabilities	<u>—</u>	<u>(2,024)</u>
Non-current portion	<u>—</u>	<u>—</u>

The Group used interest rate swaps to minimise its exposure to movements in interest rates in relation to a certain portion of its floating rate term loans. As at 31st December, 2014, the interest rate swaps had an aggregate amount of HK\$3.0 billion (note 19) with the fixed swap interest rates ranging from 0.355% per annum to 0.483% per annum. These interest rate swaps expired on 9th March, 2015.

## 22. 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, 2014	(45,403)	(364,502)	6,137	(403,768)
Deferred tax credited to other comprehensive income during the year	131	—	—	131
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 10)	454	(52,095)	5,212	(46,429)
Gross deferred tax assets/(liabilities) at 31st December, 2014	<u>(44,818)</u>	<u>(416,597)</u>	<u>11,349</u>	<u>(450,066)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2015	<b>(44,818)</b>	<b>(416,597)</b>	<b>11,349</b>	<b>(450,066)</b>
Deferred tax credited to other comprehensive income during the year	<b>15,131</b>	—	—	<b>15,131</b>
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 10)	<b>395</b>	<b>(37,762)</b>	<b>(7,026)</b>	<b>(44,393)</b>
Gross deferred tax assets/(liabilities) at 31st December, 2015	<u><b>(29,292)</b></u>	<u><b>(454,359)</b></u>	<u><b>4,323</b></u>	<u><b>(479,328)</b></u>

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

## 23. NUMBER OF UNITS IN ISSUE

	Number of Units	
	2015	2014
At beginning and end of the year	<u><b>3,257,431,189</b></u>	<u>3,257,431,189</u>

## 24. 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, 2015 of HK\$13,371,189,000 (2014: HK\$15,502,570,000) by the number of Units in issue of 3,257,431,189 (2014: 3,257,431,189) as at that date.

## 25. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties, as set out in note 13, and certain premises under operating lease arrangements. At 31st December, 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	921,893	944,732
In the second to fifth years, inclusive	63,741	246,328
After five years	238	442
	<u>985,872</u>	<u>1,191,502</u>

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

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

### (b) As lessee

The Group leases certain premises under operating lease arrangements which have been negotiated for terms ranging from 1 to 12 years. At 31st December, 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	8,835	8,828
In the second to fifth years, inclusive	880	2,408
After five years	238	442
	<u>9,953</u>	<u>11,678</u>

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

During the year ended 31st December, 2015, the total minimum lease payments under operating leases in respect of land and buildings included in property and hotel operating expenses of HK\$9,074,000 (2014: HK\$8,911,000) were charged to the consolidated statement of profit or loss.



## 26. COMMITMENTS

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

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Authorised, but not contracted for	<b>109,969</b>	110,642

## 27. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

(a) Transactions with connected/related parties:

	Notes	2015 HK\$'000	2014 HK\$'000
Contractual rental income received/receivable from the RHIHL Group	(i)	<b>957,324</b>	946,845
Hotel management fees charged by the RHIHL Group	(ii)	<b>(1,617)</b>	(2,161)
Marketing fees charged by the RHIHL Group	(iii)	<b>(349)</b>	(427)
Building management fees charged by the PHL Group	(iv)	<b>(540)</b>	(454)
Interest income on deposits	(v)	—	28,758
REIT Manager fees	(vi)	<b>(96,224)</b>	(134,699)
Trustee fees	(vii)	<b>(3,449)</b>	(4,058)
Valuation and other services fees paid/payable to the principal valuer	(viii)	<b>(845)</b>	(1,455)
Acquisitions of investment properties and related current assets	(ix)	—	(3,232,561)
Meeting fees charged by the RHIHL Group	(x)	—	(693)
		<b>—————</b>	<b>—————</b>

Notes:

- (i) The rental income earned by the Group was in accordance with the relevant lease agreements with respect to the Initial Hotels, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel.
- (ii) 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.
- (iii) The marketing fees in respect of iclub Wan Chai Hotel – Hotel portion were charged at 1% of the gross hotel revenue of iclub Wan Chai Hotel – Hotel portion in accordance with the corresponding hotel management agreement.
- (iv) The building management fees were charged at a mutually agreed amount payable on a monthly basis in respect of iclub Wan Chai Hotel – Non-hotel portions.
- (v) The interest income earned by the Group was in accordance with the relevant agreements with respect to the acquisitions of two hotels located in Sheung Wan and North Point.
- (vi) The REIT Manager is entitled to receive Base Fees, Variable Fees and Acquisition Fees, details of which, including the terms, are set out in note 7 to the consolidated financial statements.
- (vii) The Trustee is entitled to receive trustee fees (calculated and payable quarterly) at rates ranging from 0.015% per annum to 0.025% per annum based on the value of all the assets of Regal REIT as at the end of the reporting period subject to a minimum of HK\$66,000 per month.
- (viii) The valuation and other services fees were charged by the principal valuer in accordance with the terms of the relevant agreements.
- (ix) The Group acquired investment properties and related current assets from P&R Holdings in accordance with the share purchase agreement and the option agreement.
- (x) The meeting fees were charged at mutually agreed amounts.

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

	Notes	2015 HK\$'000	2014 HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables	(i)	<b>16,669</b>	49,724
Accounts payable to related companies	(ii)	<b>(88,670)</b>	(93,917)
Other payables	(ii)	—	(693)
Amounts due from related companies	(ii)	<b>2,844</b>	—
Amounts due to related companies	(ii)	<b>(45)</b>	(6,199)
Net amounts due from the PHL Group:			
Deposits paid	(ii)	<b>1,212</b>	1,212
Net amounts due to:			
The Trustee	(iii)	<b>(687)</b>	(961)
The principal valuer	(iv)	<b>(430)</b>	(770)
Restricted and non-restricted bank balances with the Deutsche Bank Group			
	(v)	<b>181</b>	<b>129</b>

Notes:

- (i) Details of the balances are set out in note 14 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 2015, the RHIHL Group provided third party guarantees as security deposit for an amount of HK\$381.5 million (2014: HK\$371.5 million), which is equivalent to six months Base Rent for the year 2015, issued by a licensed bank in Hong Kong.
- (d) Under a deed of trademarks licence, the RHIHL Group granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trademarks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.
- (e) On 23rd December, 2010, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Wan Chai Hotel for a 10-year term commencing on 1st January, 2011.

- (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.

## 28. FINANCIAL INSTRUMENTS BY CATEGORY

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

### Financial assets

	Loans and receivables	
	2015 HK\$'000	2014 HK\$'000
Accounts receivable	26,232	56,457
Financial assets included in prepayments, deposits and other receivables	4,312	4,251
Due from related companies	2,844	—
Restricted cash	46,447	47,156
Cash and cash equivalents	37,217	59,094
	<u>117,052</u>	<u>166,958</u>

### Financial liabilities

	2015		
	Financial liabilities at fair value through profit or loss – designated as hedging instruments HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Accounts payable	—	88,885	88,885
Deposits received	—	3,429	3,429
Due to related companies	—	45	45
Other payables and accruals	—	38,576	38,576
Interest-bearing bank borrowings	—	6,257,059	6,257,059
Other borrowings	—	1,929,295	1,929,295
	<u>—</u>	<u>8,317,289</u>	<u>8,317,289</u>

	2014		
	Financial liabilities at fair value through profit or loss – designated as hedging instruments HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Accounts payable	—	94,292	94,292
Deposits received	—	2,777	2,777
Due to related companies	—	6,199	6,199
Other payables and accruals	—	37,216	37,216
Interest-bearing bank borrowings	—	6,233,739	6,233,739
Other borrowings	—	1,926,604	1,926,604
Derivative financial instruments	2,024	—	2,024
	<u>2,024</u>	<u>8,300,827</u>	<u>8,302,851</u>

## 29. FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

The REIT Manager considers that the carrying amounts of the financial assets and financial liabilities recorded in the 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 financial instruments and non-financial assets:

*Assets measured at fair value:*

*As at 31st December, 2015*

	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	—	—	592,000	592,000
Investment properties	—	—	21,480,000	21,480,000
	<u>—</u>	<u>—</u>	<u>22,072,000</u>	<u>22,072,000</u>

As at 31st December, 2014

	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	—	—	691,000	691,000
Investment properties	—	—	23,428,000	23,428,000
	<u>—</u>	<u>—</u>	<u>24,119,000</u>	<u>24,119,000</u>

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 (2014: Nil).

Liabilities measured at fair value:

The Group did not have any liabilities measured at fair value as at 31st December, 2015.

As at 31st December, 2014

	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	
Derivative financial instruments	—	2,024	—	2,024
	<u>—</u>	<u>2,024</u>	<u>—</u>	<u>2,024</u>

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 (2014: Nil).



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

**(a) Property, plant and equipment**

	<b>Range 2015</b>	Range 2014
Significant unobservable inputs		
Capitalisation rate	<b>4.25%</b>	4.25%
Discount rate	<b>7.25%</b>	7.25%
Growth rate p.a. (Approximately)	<b>3.7% to 11.1%</b>	3.3% to 6.3%
Occupancy rate	<b>99% to 100%</b>	99%
Room rate per day (Approximately)	<b>HK\$1,100 to HK\$1,900</b>	HK\$1,300 to HK\$1,900
Gross operating profit (as a % of revenue) (Approximately)	<b>58% to 59%</b>	65% to 66%

**(b) Investment properties**

Significant unobservable inputs	Asset Class	<b>Range 2015</b>	Range 2014
Capitalisation rate	Hotel and commercial	<b>3.25% to 4.75%</b>	3.25% to 4.75%
Discount rate	Hotel and commercial	<b>6.25% to 7.75%</b>	6.25% to 7.75%
Growth rate p.a. (Approximately)	Hotel	<b>3.7% to 15.3%</b>	3.0% to 7.3%
Occupancy rate	Hotel	<b>85% to 95%</b>	91% to 95%
Room rate per day (Approximately)	Hotel	<b>HK\$700 to HK\$2,000</b>	HK\$820 to HK\$2,300
Gross operating profit (as a % of revenue) (Approximately)	Hotel	<b>35% to 67%</b>	40% to 67%
Estimated rental p.a. (Approximately)	Commercial	<b>HK\$6,700,000 to HK\$9,400,000</b>	HK\$6,100,000 to HK\$9,500,000

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

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

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

### 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

#### Interest rate risk

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

The Group had put in place interest rate swap arrangements, which expired on 9th March, 2015, to limit the variability in cash flows attributable to changes in interest rates. This involved fixing portions of interest payable on its underlying bank borrowings via derivative instruments. Details of interest rate swaps are set out in note 21 to the consolidated financial statements. These swaps were designated to hedge underlying bank borrowing obligations.

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\$63.0 million (2014: decreased the Group's profit before tax and distributions to Unitholders by HK\$33.0 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\$6.3 million (2014: increased the Group's profit before tax and distributions to Unitholders by HK\$3.3 million).

For interest rate swap contracts, a 100 basis point increase in interest rates would have hypothetically increased the Group's net assets attributable to Unitholders as at 31st December, 2014 by HK\$3.1 million as a result of fair value changes on derivative financial instruments. A 10 basis point decrease in interest rates would have hypothetically decreased the Group's net assets attributable to Unitholders as at 31st December, 2014 by HK\$0.3 million.

The sensitivity to the interest rates used above is considered reasonable with the other variables held constant. The sensitivity for interest rate swap contracts is based on the assumption that there are parallel shifts in the yield curve.

#### 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 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 to be 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:

	2015			Total HK\$'000
	On demand HK\$'000	Less than 12 months HK\$'000	1 to 5 years HK\$'000	
Accounts payable	88,670	215	—	88,885
Deposits received	—	770	2,659	3,429
Other payables and accruals	—	38,576	—	38,576
Due to related companies	—	45	—	45
Interest-bearing bank borrowings	—	182,080	6,432,545	6,614,625
Other borrowings	—	79,856	2,042,709	2,122,565
	<u>88,670</u>	<u>301,542</u>	<u>8,477,913</u>	<u>8,868,125</u>
	2014			Total HK\$'000
	On demand HK\$'000	Less than 12 months HK\$'000	1 to 5 years HK\$'000	
Accounts payable	93,917	375	—	94,292
Deposits received	—	124	2,653	2,777
Other payables and accruals	—	37,216	—	37,216
Due to related companies	—	6,199	—	6,199
Interest-bearing bank borrowings	—	185,580	6,839,356	7,024,936
Other borrowings	—	79,674	2,123,552	2,203,226
Derivative financial instruments	—	2,024	—	2,024
	<u>93,917</u>	<u>311,192</u>	<u>8,965,561</u>	<u>9,370,670</u>

The amount in respect of derivative financial instruments represents the net amount for receive-floating/pay-fixed interest rate swaps for which net cash flows are exchanged.

### 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 available to meet future capital requirements relating to acquisitions of additional properties, as well as capital expenditures associated with 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 39.3% to 54.9% (2014: ranged from 38.8% to 49.5%), 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 37.1% (2014: 33.9%), being the gross amount of the outstanding loans and debts aggregating HK\$8,239.7 million (2014: HK\$8,233.6 million), which takes into account: (a) the debts in relation to the notes issued in March 2013 and May 2013 under the medium term note programme for an aggregate amount of HK\$1,937.7 million (2014: HK\$1,938.6 million); (b) the 2013 IH Facilities of HK\$4,500.0 million (2014: HK\$4,520.0 million); (c) the 2014 WC Facility of HK\$440.0 million (2014: HK\$440.0 million); (d) the 2014 SW Facilities of HK\$632.0 million (2014: HK\$675.0 million); and (e) the 2014 FH Facilities of HK\$730.0 million (2014: HK\$660.0 million), as compared to the total gross assets of Regal REIT of HK\$22,190.4 million (2014: HK\$24,287.5 million), which is below the maximum 45% permitted under the REIT Code.

### 31. SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

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

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



## To the Unitholders of Regal Real Estate Investment Trust

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

We have audited the consolidated financial statements of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries set out on pages 61 to 112, which comprise the consolidated statement of financial position as at 31st December, 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets, the consolidated statement of cash flows and the distribution statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## MANAGER'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Manager of Regal REIT is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, 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 requirements set out in Appendix C of the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission of Hong Kong, and for such internal control as the Manager of Regal REIT determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Appendix C of the REIT Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

# INDEPENDENT AUDITORS' REPORT (CONTINUED)

## 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))

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager of Regal REIT, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Regal REIT and its subsidiaries as at 31st December, 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code.

## Ernst & Young

*Certified Public Accountants*

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

22nd March, 2016

## PERFORMANCE TABLE

### As at 31st December, 2015

	Notes	Year ended 31st December, 2015	Year ended 31st December, 2014	Year ended 31st December, 2013	Year ended 31st December, 2012	Year ended 31st December, 2011
Net assets attributable to Unitholders (HK\$'million)		<b>13,371.2</b>	15,502.6	15,774.1	15,931.0	12,651.8
Net asset value per Unit attributable to Unitholders (HK\$)		<b>4.105</b>	4.759	4.843	4.891	3.884
The highest traded price during the year (HK\$)	1	<b>2.37</b>	2.32	2.75	2.30	2.66
The lowest traded price during the year (HK\$)		<b>1.88</b>	1.92	2.15	1.68	1.43
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		<b>54.20%</b>	59.66%	55.61%	65.65%	63.18%
Distribution yield per Unit	2	<b>7.94%</b>	7.90%	6.73%	6.31%	6.70%

#### 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, 2015 is calculated by dividing the total distributions per Unit of HK\$0.154 over the closing price of HK\$1.94 as at 31st December, 2015, being the last trading day for the year. Details of the total distributions per Unit is set out in the section "Distribution Statement" on page 66.



# TRUSTEE'S REPORT

## 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 2015 to 31 December 2015.

### **DB Trustees (Hong Kong) Limited**

*(in its capacity as the trustee of Regal REIT)*

Hong Kong, 2 March 2016

**Regal Portfolio Management Limited**

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

Colliers International (Hong Kong) Ltd  
Suite 5701  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

**DB Trustees (Hong Kong) Limited**

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

T : (852) 2822 0525  
F : (852) 2107 6017

EA LICENCE: C-006052

26 February 2016

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 AND ICLUB FORTRESS HILL HOTEL IN HONG KONG (COLLECTIVELY THE "PROPERTIES")**

**Instructions**

In accordance with the instructions for us to value the Properties, we confirm that we have carried out physical inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the leasehold interests of the Properties in their existing state as at 31 December 2015 (the "Date of Valuation").

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.
- We are authorised to practice as valuer and have the necessary expertise and experience in valuing similar types of properties.
- The valuations have been prepared on a fair and unbiased basis.

## **Basis of Valuation**

Our valuation of the Properties represents the Market Value, which is defined by the HKIS 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.”

## **Valuation Standards**

The valuations have been carried out in accordance with “The HKIS Valuation Standards (2012 Edition)” published by The Hong Kong Institute of Surveyors; and in compliance with the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; and Chapter 6.8 of the Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in August 2014.

## **Valuation Rationale**

In the course of our valuations, we have adopted the Income Capitalisation Approach – Discounted Cash Flow Analysis. This approach is defined in the International Valuation Standards as a financial modelling technique based on explicit assumptions regarding the prospective cash flows from income generating properties. This analysis involves the projection of a series of periodic cash flows for an income generating property. To this projected cash flow series, an appropriate discount rate is applied to establish an indication of the present value of the rental income stream associated with the property.

In the case of income generating property, periodic cash flow is typically estimated as gross income less vacancy, operating expenses and other outgoings. The series of periodic net operating income, along with an estimate of the reversionary or terminal value anticipated at the end of the projection period, is then discounted at the discount rate, being a cost of capital or a rate of return used to convert a monetary sum, payable or receivable in the future, into present value.

We have undertaken a Discounted Cash Flow Analysis on an annual basis over a ten-year investment horizon. This analysis allows an investor or owner to make an assessment of the long-term return that is likely to be derived from a property taking into account capital growth. We have assumed that the property is sold at the commencement of the eleventh year of the cash flow and the rental income in the eleventh year has been capitalised at a terminal capitalisation rate to derive the capital value at the end of the tenth year.

This analysis has then been cross-checked by the Market Approach assuming sales of the Properties in their existing state and by making reference to comparable sale transactions as available in the relevant market. By analysing sales which qualify as “arm’s-length” transactions, between willing buyers and sellers, relevant adjustments are made when comparing such sales against the Properties.

## **Title Investigations**

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

## **Sources of Information**

We have relied to a considerable extent on the information provided by the Client on such matters as tenancy schedules, statutory notices, easements, tenure, floor areas, building plans and all other relevant matters. Dimensions, measurements and areas included in the valuation are based on information contained in the documents provided to us and are, therefore, only approximations.

We have also been advised by the Client that no material factors or information have been omitted or withheld from the information supplied and consider that we have been provided with sufficient information to reach an informed view. We believe that the assumptions used in preparing our valuations are reasonable.

## **Site Measurement**

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the areas shown on the documents and plans provided to us are correct.

## **Site Inspection**

We have inspected the exteriors and the interiors of the Properties. Our inspections of the Properties were carried out by David Faulkner (FRICS and FHKIS) and Stella Ho (MRICS and MHKIS), on 8 and 13 January 2016. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the Properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services. Our valuations have been prepared on the assumption that these aspects are satisfactory.

## **Assumptions and Caveats**

Our valuations have been made on the assumption that the Client sells the Properties on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, or any similar arrangements which would affect their values although they are subject to the existing management agreements and lease agreements.

No allowances have been made in our valuations for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxes which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

This report and our valuations are for the use of the REIT Manager and the Trustee of Regal REIT and the report is for the use only of the parties to whom it is addressed and for no other purpose. No responsibility is accepted to any third party who may use or rely on the whole or any part of the content of these valuations.

We have made the following assumptions:

- All information on the Properties provided by the Client is correct.
- Proper ownership titles of and relevant planning approvals for the Properties have been obtained, all payable land premiums, land-use rights fees and other relevant fees have been fully settled and the Properties can be freely transferred, sub-let, mortgaged or otherwise disposed of.
- We have been provided with the tenancy schedules, a standard Tenancy Agreement and a Licence Agreement by the Client. We have not examined the lease documents for each specific tenancy and our assessment is based on the assumption that all leases are executed and are in accordance with the provisions stated in the tenancy schedules provided to us. Moreover, we assume that the tenancies 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.
- No acquisition costs or disposal costs have been taken into account in the valuations.
- The Government Leases will be renewed upon expiry on normal terms.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong dollars (HK\$).

Our Summary of Values and Valuation Reports are attached hereto.

Yours faithfully,

For and on behalf of

**Colliers International (Hong Kong) Ltd**

**Stella Ho**

*BSSc (Hons) MSc MRICS MHKIS RPS (GP)*

Director

Valuation and Advisory Services

**David Faulkner**

*BSc (Hons) FRICS FHKIS RPS (GP) MAE*

Executive Director

Valuation & Advisory Services – Asia

Note: Stella Ho is a Member of the Royal Institution of Chartered Surveyors, a Member of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor under the Surveyors Registration Ordinance (Cap. 417) in the Hong Kong Special Administrative Region ("Hong Kong"). She is suitably qualified to carry out the valuation and has over 16 years' experience in the valuation of properties of this magnitude and nature.

Note: David Faulkner is a Fellow of the Royal Institution of Chartered Surveyors, a Fellow of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor under the Surveyors Registration Ordinance (Cap. 417) in the Hong Kong Special Administrative Region ("Hong Kong"). He is suitably qualified to carry out the valuation and has over 36 years' experience in the valuation of properties of this magnitude and nature, and over 30 years' experience in Hong Kong and China.

## SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 31 December 2015 HK\$
1	<b>Regal Airport Hotel</b> 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	3,420,000,000
2	<b>Regal Hongkong Hotel</b> 88 Yee Wo Street Causeway Bay Hong Kong	3,770,000,000
3	<b>Regal Kowloon Hotel</b> 71 Mody Road Tsimshatsui Kowloon Hong Kong	5,090,000,000
4	<b>Regal Oriental Hotel</b> 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	1,790,000,000
5	<b>Regal Riverside Hotel</b> 34-36 Tai Chung Kiu Road Shatin New Territories Hong Kong	4,260,000,000

<b>No. Property</b>	<b>Market Value in existing state as at 31 December 2015 HK\$</b>
<b>6 iclub Wan Chai Hotel</b> 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	801,000,000
<b>7 iclub Sheung Wan Hotel</b> 138 Bonham Strand Sheung Wan Hong Kong	1,440,000,000
<b>8 iclub Fortress Hill Hotel</b> 18 Merlin Street North Point Hong Kong	1,501,000,000
<b>Total :</b>	<b>22,072,000,000</b>



## 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

#### 1. PROPERTY DESCRIPTION

Regal Airport Hotel ("RAH") is a 14-storey (including a basement floor) High Tariff A hotel completed in 1999. The number of rooms increased from 1,104 to 1,171 after the completion of an Asset Enhancement Programme in October 2007.

RAH is connected to the passenger terminal of the Hong Kong International Airport ("HKIA") by an air-conditioned footbridge on the 2nd Floor in close proximity to AsiaWorld Expo, a few minutes' walk away. The immediate locality of RAH comprises mainly support facilities of the airport, carpark, and the passenger terminals.

<b>Site Area</b>	:	10,886 sq.m.
<b>Gross Floor Area</b>	:	71,988 sq.m.
<b>Covered Floor Area</b>	:	Approx. 83,400 sq.m.
<b>Town Planning Zoning</b>	:	"Commercial" zone under Chek Lap Kok Outline Zoning Plan No. S/I-CLK/13 dated 8 May 2015.

#### Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	198	Spa Cabana Room	5
Superior Room	375	Spa Suite	2
Deluxe Room	155	Honeymoon Suite	1
Prime Deluxe Room	105	Royal Suite	11
Premier Room	99	Spa Duplex Suite	2
Cabana Room	17	Deluxe Suite	15
Executive Club Floor Superior Room	68	Apartment Suite	9
Executive Club Floor Deluxe Room	94	Presidential Suite	1
Spa Deluxe Room	14		
		<b>Total</b>	<b>1,171</b>

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, Thai à la carte dishes	869	384
G/F	The China Coast Bar + Grill	American Steakhouse	644	230
G/F	Dragon Inn	Huai Yang & Shanghainese Cuisine	359	182
G/F	Airport Izakaya	Japanese Cuisine	236	100
1/F	Rouge	Cantonese and Sichuan Cuisine	504	260
2/F	Regala Café & Dessert Bar	Desserts and Drinks	326	94

## Meeting and Banquet Facilities

Floor	Name of Function Room	Type of Facility	No. of Rooms	Seating Capacity (approx.)		
				Area (sq.m.)	No. of seating in Boardroom Style	No. of seating in Theatre/ 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	377	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.

## 2. OWNERSHIP AND TENURE

**Registered Owner** : Airport Authority<sup>1</sup>

**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.

### 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)
- Mortgage and Assignment of Rights in favour of Hang Seng Bank Limited dated 29 August 2013, registered vide Memorial No. 13092602360232
- 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)

<sup>1</sup> 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.

- 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)

### 3. HOTEL OPERATION

#### Hotel Performance in 2015

**Occupancy Rate** : 90%

**Average Room Rate** : HK\$1,235

#### Lease Agreement

**Lessor** : Bauhinia Hotels Limited

**Lessee** : Favour Link International Limited

**Term of Lease Agreement** : Commencing from 30 March 2007 (the "Listing Date") and expiring on 31 December 2020 (both days inclusive).

**Rental** : From 2011 to 2020, the Market Rent<sup>2</sup> 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<sup>3</sup>.

According to the 2015 and 2016 Market Rental Package Determinations, Base Rent for RAH for the fiscal years of 2015 and 2016 are HK\$230,000,000 and HK\$237,000,000 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.

<sup>2</sup> 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.

<sup>3</sup> Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

## Hotel Management Agreement (“HMA”)

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

## 4. RETAIL TENANCY/LICENCE SCHEDULES

### Retail<sup>6</sup>

<b>Retail Area (Lettable)</b>	: Approx. 40,100 sq.ft. (3,725 sq.m.)
<b>Occupied Area (Lettable)</b>	: Approx. 10,784 sq.ft. (1,002 sq.m.)
<b>Vacant Area (Lettable)</b>	: Approx. 29,316 sq.ft. (2,724 sq.m.)
<b>Occupancy Rate</b>	: 26.9%
<b>Monthly Base Rent</b>	: HK\$426,323 (All tenancies except one are exclusive of rates, management fees and air-conditioning charges; the remaining tenancy is inclusive of management fees and air-conditioning charges, but exclusive of rates.)

### Tenancy Expiry Profile

Year	Lettable Area (sq.ft.)	% of Total	Monthly Rent (HK\$)	% of Total	No. of Tenancy	% of Total
Monthly	794	7.4%	27,790	6.5%	1	11.1%
Year Ending 2016	8,052	74.7%	287,133	67.4%	6	66.7%
Year Ending 2017	955	8.9%	66,400	15.6%	1	11.1%
Year Ending 2018	983	9.1%	45,000	10.6%	1	11.1%
<b>Total</b>	<b>10,784</b>	<b>100%</b> <b>(rounded)</b>	<b>426,323</b>	<b>100%</b> <b>(rounded)</b>	<b>9</b>	<b>100%</b> <b>(rounded)</b>

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

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

<sup>6</sup> The areas quoted exclude spaces which are used by RAH.

### Tenancy Duration Profile

Tenancy Duration	Lettable Area (sq.ft.)	% of Total	Monthly Rent (HK\$)	% of Total	No. of Tenancy	% of Total
Monthly	794	7.4%	27,790	6.5%	1	11.1%
More than 1 year and up to 2 years	9,007	83.5%	353,533	82.9%	7	77.8%
More than 2 years and up to 3 years	983	9.1%	45,000	10.6%	1	11.1%
<b>Total</b>	<b>10,784</b>	<b>100% (rounded)</b>	<b>426,323</b>	<b>100% (rounded)</b>	<b>9</b>	<b>100% (rounded)</b>

**Latest Expiry Date** : 15 April 2018

**Range of Rent-free Period** : 0 to 3 months

**Option to Renew** : N/A

**Summary of Terms** : The Landlord<sup>7</sup> 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\$245,726 per month

**Latest Expiry Date** : 14 February 2016

## 5. ESTIMATED NET PROPERTY YIELD<sup>8</sup>

7.2%

## 6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2015

HK\$3,420,000,000 (Three Billion Four Hundred and Twenty Million Hong Kong dollars)

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

<sup>8</sup> The Estimated Net Property Yield of RAH is derived from the rent receivable in 2015 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

#### 1. PROPERTY DESCRIPTION

Regal Hongkong Hotel ("RHK") is a 38-storey (including four basement floors) High Tariff A hotel completed in 1993, providing a total of 481 rooms and suites. The majority of rooms command views of Victoria Park. RHK also comprises ancillary hotel spaces on the portions of Ground Floor, 1st, 2nd and 3rd Floors and Shop Nos. 301 to 304 on the 3rd Floor of 68 Yee Wo Street<sup>9</sup>.

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

**Site Area** : 1,176 sq.m.

**Gross Floor Area** : 25,090 sq.m.<sup>10</sup>

**Covered Floor Area** : Approx. 32,000 sq.m.<sup>11</sup>

**Town Planning Zoning** : "Commercial" zone under Causeway Bay Outline Zoning Plan No. S/H6/15 dated 17 September 2010.

#### Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	34	Executive Suite	20
Superior Room	210	Deluxe Suite	8
Deluxe Room	90	Presidential Suite	1
Prime Deluxe Room	27	Imperial Suite	1
Premier Room	39	Chairman Suite	1
Executive Club Floor Superior Room	11	Regal Royale Suite	2
Executive Club Floor Deluxe Room	37		
		<b>Total</b>	<b>481</b>

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

<sup>9</sup> The owner of RHK has also rented some spaces on G/F to 3/F of 68 Yee Wo Street. The first tenancy is related to hotel ancillary use of 10,510 sq.ft. (976 sq.m.) lettable area. The current monthly rent is HK\$500,000 with expiration on 1 March 2022. The second tenancy is related to Shops No. 301 to 304 on the Third Floor with a lettable area of 3,437 sq.ft. (319 sq.m.). The term is two years commencing from 16 January 2015 with a monthly rent of HK\$127,374.

<sup>10</sup> The area excludes the rented space.

<sup>11</sup> 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	60
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	275	228

## Other Facilities

Other facilities include a gymnasium and an outdoor swimming pool.

## 2. 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.
- Cityability Debenture in favour of Hang Seng Bank Limited dated 29 August 2013, registered vide Memorial No. 13092602360252.
- 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.

## 3. HOTEL OPERATION

### Hotel Performance in 2015

**Occupancy Rate** : 86%

**Average Room Rate** : HK\$1,252

### Lease Agreement

**Lessor** : Cityability Limited

**Lessee** : Favour Link International Limited

**Term of Lease Agreement** : Commencing from the Listing Date and expiring on 31 December 2020 (both days inclusive).

**Rental** : From 2011 to 2020, the Market Rent<sup>12</sup> 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<sup>13</sup>.

According to the 2015 and 2016 Market Rental Package Determinations, Base Rent for RHK for the fiscal years of 2015 and 2016 are HK\$145,000,000 and HK\$128,000,000 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<sup>14</sup> (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<sup>15</sup> 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)

#### **4. LICENCE SCHEDULES**

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

**Number of Licences** : 2

**Monthly Licence Fee** : HK\$106,200 per month

**Latest Expiry Date** : 15 August 2016

#### **5. ESTIMATED NET PROPERTY YIELD<sup>16</sup>**

3.8%

#### **6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2015**

HK\$3,770,000,000 (Three Billion Seven Hundred and Seventy Million Hong Kong dollars)

<sup>12</sup> 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.

<sup>13</sup> Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

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

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

<sup>16</sup> The Estimated Net Property Yield of RHK is derived from the base rent receivable in 2015 divided by the Market Value.

### Property 3

#### REGAL KOWLOON HOTEL

71 Mody Road  
Tsim Sha Tsui, Kowloon, Hong Kong  
Kowloon Inland Lot No. 10474

#### 1. PROPERTY DESCRIPTION

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

RKH is located at Tsim Sha Tsui, a renowned commercial and tourist area. The immediate locality is predominately occupied by hotel, retail and office developments.

**Site Area** : 2,560 sq.m.

**Gross Floor Area** : 31,746 sq.m.

**Covered Floor Area** : Approx. 43,500 sq.m.

**Town Planning Zoning** : "Commercial" zone under Tsim Sha Tsui Outline Zoning Plan No. S/K1/28 dated 3 December 2013.

#### Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	41	Executive Club Floor Deluxe Room	148
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	97	Presidential Suite	1
		<b>Total</b>	<b>600</b>

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

## Food and Beverage Outlets

Floor	Name of Outlet	Type of Facility	Seating Capacity (approx.)	
			Area (sq.m.)	No. of normal dining seating
1/B	Café Allegro	International Seafood Buffets and Vietnamese à la carte Delights	350	186
G/F	V Bar & Lounge <sup>17</sup>	Snacks and Cocktails	89	56
1/F	Mezzo	American Italian	199	70
2/F	Regal Court	Chinese Cuisine	673	266

## Meeting and Banquet Facilities

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

## Other Facilities

Other facilities include a fitness room and a shopping arcade.

## 2. 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.

<sup>17</sup> Additional outside seating area is provided on the Ground Floor.

### 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)
- 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.

## 3. HOTEL OPERATION

### Hotel Performance in 2015

**Occupancy Rate** : 88%

**Average Room Rate** : HK\$1,111

### Lease Agreement

**Lessor** : Ricobem Limited

**Lessee** : Favour Link International Limited

**Term of Lease Agreement** : Commencing from the Listing Date and expiring on 31 December 2020 (both days inclusive).

**Rental** : From 2011 to 2020, the Market Rent<sup>18</sup> 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<sup>19</sup>.

According to the 2015 and 2016 Market Rental Package Determinations, Base Rent for RKH for the fiscal years of 2015 and 2016 are HK\$157,000,000 and HK\$150,000,000 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.

<sup>18</sup> 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.

<sup>19</sup> Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

## Hotel Management Agreement (“HMA”)

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

## 4. RETAIL TENANCY/LICENCE SCHEDULES

### Retail<sup>22</sup>

<b>Retail Area (Lettable)</b>	:	Approx. 42,999 sq.ft. (3,995 sq.m.)
<b>Occupied Area (Lettable)</b>	:	Approx. 37,405 sq.ft. (3,475 sq.m.)
<b>Vacant Area (Lettable)</b>	:	5,594 sq.ft. (520 sq.m.)
<b>Occupancy Rate</b>	:	87%
<b>Monthly Base Rent</b>	:	HK\$2,061,079 (All except seven tenancies are inclusive of management fees and air-conditioning charges, but exclusive of rates.)

### Tenancy Expiry Profile

Year	Lettable Area (sq.ft.)	% of Total	Monthly Rent (HK\$)	% of Total	No. of Tenancy	% of Total
Monthly	1,362	3.6%	27,380	1.3%	3	11.1%
Year Ending 2016	12,389	33.1%	1,079,593	52.4%	14	51.9%
Year Ending 2017	9,003	24.1%	603,100	29.3%	6	22.2%
Year Ending 2018	7,759	20.7%	316,546	15.4%	3	11.1%
Year Ending 2019	6,892	18.4%	34,460	1.7%	1	3.7%
<b>Total</b>	<b>37,405</b>	<b>100% (rounded)</b>	<b>2,061,079</b>	<b>100% (rounded)</b>	<b>27</b>	<b>100% (rounded)</b>

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

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

<sup>22</sup> The areas quoted exclude spaces which are used by RKH.



## Tenancy Duration Profile

Tenancy Duration	Lettable Area (sq.ft.)	% of Total	Monthly Rent (HK\$)	% of Total	No. of Tenancy	% of Total
Monthly	1,362	3.6%	27,380	1.3%	3	11.1%
More than 1 year and up to 2 years	6,575	17.6%	374,593	18.2%	11	40.7%
More than 2 years and up to 3 years	4,142	11.1%	929,600	45.1%	7	25.9%
More than 3 years and up to 4 years	17,739	47.4%	457,406	22.2%	4	14.8%
More than 4 years and up to 5 years	7,587	20.3%	272,100	13.2%	2	7.4%
<b>Total</b>	<b>37,405</b>	<b>100% (rounded)</b>	<b>2,061,079</b>	<b>100% (rounded)</b>	<b>27</b>	<b>100% (rounded)</b>

**Latest Expiry Date** : 21 January 2019

**Range of Rent-free Period** : 0 to 2 months

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

**Summary of Terms** : The Landlord<sup>23</sup> 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\$148,729 per month

**Latest Expiry Date** : 30 April 2017

## 5. ESTIMATED NET PROPERTY YIELD<sup>24</sup>

3.1%

## 6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2015

HK\$5,090,000,000 (Five Billion and Ninety Million Hong Kong dollars)

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

<sup>24</sup> The Estimated Net Property Yield of RKH is derived from the rent receivable in 2015 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

#### 1. PROPERTY DESCRIPTION

Regal Oriental Hotel ("ROH") is a 17-storey (including two basement floors) High Tariff B hotel completed in 1982. After the completion of the Asset Enhancement Programme in 2007 and the conversion projects in 2013, the hotel comprises 494 guestrooms and suites.

ROH also comprises nine shop units on the Ground Floor (with three units including cocklofts), and the 1st Floor in an adjacent 14-storey building ("Po Sing Court") which was completed in 1967. The 1st Floor of Po Sing Court is for back-of-house uses.

ROH is located in Kowloon City and faces the site of the former Hong Kong International Airport at Kai Tak Area where a complex development project with a mix of community, housing, business and tourism uses will be constructed.

<b>Site Area</b>	:	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.
<b>Gross Floor Area</b>	:	22,601 sq.m.
<b>Covered Floor Area</b>	:	Approx. 27,300 sq.m.
<b>Town Planning Zoning</b>	:	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/K10/21 dated 15 May 2015.

## Hotel Guestroom Configuration

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

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 <sup>25</sup>	Pub & Restaurant	248	72
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.)	Boardroom Style	No. of Seating in Theatre/ Banquet Style
1/F	Ballroom	Banquet/Convention	1	345	300	300
1/F	Multi-purpose Function Rooms	Banquet/Convention	7	302	294	192
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.

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

## 2. OWNERSHIP AND TENURE

**Registered Owner** : Gala Hotels Limited

**Lease Term** : 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.

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.

### 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.

#### ***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.

### 3. HOTEL OPERATION

#### Hotel Performance in 2015

<b>Occupancy Rate</b>	:	82%
<b>Average Room Rate</b>	:	HK\$733

#### Lease Agreement

<b>Lessor</b>	:	Gala Hotels Limited
<b>Lessee</b>	:	Favour Link International Limited
<b>Term of Lease Agreement</b>	:	Commencing from the Listing Date and expiring on 31 December 2020 (both days inclusive).
<b>Rental</b>	:	From 2011 to 2020, the Market Rent <sup>26</sup> 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 <sup>27</sup> .

According to the 2015 and 2016 Market Rental Package Determinations, Base Rent for ROH for the fiscal years of 2015 and 2016 are HK\$81,000,000 and HK\$67,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

#### Hotel Management Agreement ("HMA")

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

<sup>26</sup> 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.

<sup>27</sup> Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

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

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

#### 4. RETAIL TENANCY/LICENCE SCHEDULES

##### Retail<sup>30</sup>

<b>Retail Area (Lettable)</b>	:	ROH – Approx. 12,263 sq.ft. (1,139 sq.m.) Po Sing Court – Approx. 4,052 sq.ft. (376 sq.m.)
<b>Occupied Area (Lettable)</b>	:	0 sq.ft. (0 sq.m.)
<b>Vacant Area (Lettable)</b>	:	Regal Oriental Hotel – Approx. 12,263 sq.ft. (1,139 sq.m.) Po Sing Court – Approx. 4,052 sq.ft. (376 sq.m.)
<b>Occupancy Rate</b>	:	0%
<b>Monthly Base Rent</b>	:	HK\$0
<b>Latest Expiry Date</b>	:	N/A
<b>Range of Rent-free Period</b>	:	N/A
<b>Option to Renew</b>	:	N/A
<b>Summary of Terms</b>	:	N/A

##### Licences for Mobile Phone Base Stations and Antennae

<b>Number of Licences</b>	:	3
<b>Monthly Licence Fee</b>	:	HK\$68,629
<b>Latest Expiry Date</b>	:	30 April 2017

#### 5. ESTIMATED NET PROPERTY YIELD<sup>31</sup>

4.5%

#### 6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2015

HK\$1,790,000,000 (One Billion Seven Hundred and Ninety Million Hong Kong dollars)

<sup>30</sup> The areas quoted exclude spaces which are used by ROH.

<sup>31</sup> The Estimated Net Property Yield of ROH is derived from the base rent receivable in 2015 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

#### 1. PROPERTY DESCRIPTION

Regal Riverside Hotel ("RRH") is a 20-storey (including two basement floors) High Tariff B hotel completed in 1986. After the completion of two Asset Enhancement Programmes in October 2007 and June 2009, the number of rooms was increased from 830 to 1,138.

RRH is located at Shatin, a well-established new town in the New Territories with an immediate locality of mainly residential buildings with some shopping facilities. RRH overlooks the Shing Mun River.

<b>Site Area</b>	:	4,956 sq.m.
<b>Gross Floor Area</b>	:	59,668 sq.m.
<b>Covered Floor Area</b>	:	Approx. 69,100 sq.m.
<b>Town Planning Zoning</b>	:	"Commercial" zone under Sha Tin Outline Zoning Plan No. S/ST/32 dated 1 December 2015.

#### Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	126	Executive Club Floor Deluxe Room	54
Superior Room	311	Executive Club Floor River View Room	45
Deluxe Room	50	Spa Superior Room	4
Prime Deluxe Room	158	Spa Deluxe Room	3
Premier Room	154	Executive Suite	11
Family Triple Room	29	Royal Suite	1
Family Quadruple Room	65	Deluxe Suite	6
Executive Club Floor Superior Room	120	Presidential Suite	1
		<b>Total</b>	<b>1,138</b>

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 <sup>32</sup>	Thai-Vietnam 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 <sup>33</sup>	Italian Cuisine	154	98
G/F	Scene Bar	Live Music Lounge	210	88
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	206	192
3/F	Multi-purpose Function Rooms	Banquet/Convention	4	313	300	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.

<sup>32</sup> Outside seating areas are provided on the Ground Floor.

<sup>33</sup> Outside seating areas are provided on the Ground Floor.

## 2. 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.
- Regal Riverside Debenture in favour of Hang Seng Bank Limited dated 29 August 2013, registered vide Memorial No. 13092602360240.
- 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.

### 3. HOTEL OPERATION

#### Hotel Performance in 2015

<b>Occupancy Rate</b>	:	83%
<b>Average Room Rate</b>	:	HK\$702

#### Lease Agreement

<b>Lessor</b>	:	Regal Riverside Hotel Limited
<b>Lessee</b>	:	Favour Link International Limited
<b>Term of Lease Agreement</b>	:	Commencing from the Listing Date and expiring on 31 December 2020 (both days inclusive).
<b>Rental</b>	:	From 2011 to 2020, the Market Rent <sup>34</sup> to be determined (the "Market Rental Package Determination") in accordance with the Lease Agreement, subject to a minimum 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 <sup>35</sup> .

According to the 2015 and 2016 Market Rental Package Determinations, Base Rent for RRH for the fiscal years of 2015 and 2016 are HK\$150,000,000 and HK\$150,000,000 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")

<b>Hotel Manager</b>	:	Regal Hotels International Limited
<b>Term of HMA</b>	:	Twenty (20) years from the Listing Date
<b>Base Fee</b>	:	One percent (1%) of Gross Revenue <sup>36</sup> (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term)
<b>Incentive Fee:</b>	:	One percent (1%) of the excess of the Adjusted GOP <sup>37</sup> 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)

<sup>34</sup> 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.

<sup>35</sup> Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

<sup>36</sup> According to the Hotel Management Agreement, "Gross Revenue" means all revenue derived from the Hotel.

<sup>37</sup> According to the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

#### 4. RETAIL TENANCY/LICENCE SCHEDULES

##### Retail<sup>38</sup>

<b>Retail Area (Lettable)</b>	:	Approx. 2,697 sq.ft. (251 sq.m.)
<b>Occupied Area (Lettable)</b>	:	Approx. 1,973 sq.ft. (183 sq.m.)
<b>Vacant Area (Lettable)</b>	:	724 sq.ft. (67.3 sq.m.)
<b>Occupancy Rate</b>	:	73.2%
<b>Monthly Base Rent</b>	:	HK\$81,000 (all are exclusive of rates, management fees and air-conditioning charges)

##### Tenancy Expiry Profile

Year	Lettable Area		Monthly Rent (HK\$)		No. of Tenancy	
	(sq.ft.)	% of Total		% of Total		% of Total
Year Ending 2018	1,973	100%	81,000	100%	1	100%
<b>Total</b>	<b>1,973</b>	<b>100%</b> <b>(rounded)</b>	<b>81,000</b>	<b>100%</b> <b>(rounded)</b>	<b>1</b>	<b>100%</b> <b>(rounded)</b>

##### Tenancy Duration Profile

Tenancy Duration	Lettable Area		Monthly Rent (HK\$)		No. of Tenancy	
	(sq.ft.)	% of Total		% of Total		% of Total
More than 2 years and up to 3 years	1,973	100%	81,000	100%	1	100%
<b>Total</b>	<b>1,973</b>	<b>100%</b> <b>(rounded)</b>	<b>81,000</b>	<b>100%</b> <b>(rounded)</b>	<b>1</b>	<b>100%</b> <b>(rounded)</b>

**Latest Expiry Date** : 14 November 2018

**Range of Rent-free Period** : 0 to 1 month

**Option to Renew** : N/A

**Summary of Terms** The Landlord<sup>39</sup> 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.

<sup>38</sup> The areas quoted exclude spaces which are used by RRH.

<sup>39</sup> All tenancy agreements/licences are entered into by Favour Link International Ltd as Landlord.

### **Licences for Mobile Phone Base Stations and Antennae**

<b>Number of Licences</b>	:	4
<b>Monthly Licence Fee</b>	:	HK\$184,800 per month
<b>Latest Expiry Date</b>	:	31 March 2017

#### **5. ESTIMATED NET PROPERTY YIELD<sup>40</sup>**

3.5%

#### **6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2015**

HK\$4,260,000,000 (Four Billion Two Hundred and Sixty Million Hong Kong dollars)

<sup>40</sup> The Estimated Net Property Yield of RRH is derived from the base rent receivable in 2015 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

#### 1. PROPERTY DESCRIPTION

iclub Wan Chai Hotel ("ICWC") comprises a major portion of the Ground Floor including Shops A, B and C, 22 entire floors (from the 5th to 29th Floors, of which the 13th, 14th and 24th Floors are excluded), a flat roof on the 3rd Floor, together with 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 on a portion of the Ground Floor, all 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. The immediate locality is predominantly office buildings.

After the completion of the Asset Enhancement Programme and the conversion project in 2009 and 2010 respectively, the hotel comprises 99 guestrooms and suites. ICWC is a High Tariff B hotel.

The 99-room hotel portion includes a portion of the Ground Floor and the whole of the 5th to 26th Floors of the building. The portion of the Ground Floor comprises the hotel lobby and a shop which is let to an independent third party. The mechanical floor is situated on the 3rd Floor. The 27th to 29th Floors have been leased to independent third parties and are occupied for retail/restaurant/bar/karaoke uses.

<b>Site Area</b>	:	413 sq.m.
<b>Gross Floor Area</b>	:	5,326 sq.m.
<b>Covered Floor Area</b>	:	Approx. 5,530 sq.m.
<b>Town Planning Zoning</b>	:	"Commercial" zone under Draft Wan Chai Outline Zoning Plan No. S/H5/27 dated 3 August 2012.

### Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iSelect	30	iSuite	4
iPlus Premier	29	iResidence	7
iBusiness Deluxe	29		
		<b>Total</b>	<b>99</b>

Note: The room sizes range from 15 sq.m. to 47 sq.m.

### Other Facilities

Other facilities include a club lounge and a gymnasium.

## 2. OWNERSHIP AND TENURE

**Registered Owner** : Sonnix Limited

**Lease Term** : The Inland Lot No. 2769 is held under a Government Lease for a term of 99 years commencing from 25 May 1929 and renewable for a further term of 99 years.

### Major Registered Encumbrances

- Licence in favour of Sonnix Limited by the District Lands Officer/Hong Kong West for and on behalf of the Governor of Hong Kong dated 22 November 1994, registered vide Memorial No. UB6186840.
- Statutory Declaration of Liu Yee Man John dated 17 April 1997, registered vide Memorial No. UB7020522.
- Occupation Permit No. H73/97 dated 20 November 1997, registered vide Memorial No. UB7355437.
- Deed of Mutual Covenant and Management Agreement in favour of Paliburg Estate Management Limited dated 28 November 1997, registered vide Memorial No. UB7376631.
- Supplemental Deed of Mutual Covenant and Management Agreement in favour of Paliburg Estate Management Limited dated 19 October 2009, registered vide Memorial No. 09103001380118.
- Debenture and Mortgage in favour of Hang Seng Bank Limited, dated 24 December 2014, registered vide Memorial No. 15011902330104.

### 3. HOTEL OPERATION

#### Hotel Performance in 2015

<b>Occupancy Rate</b>	:	100%
<b>Average Room Rate</b>	:	HK\$966

#### Hotel Management Agreement (“HMA”)

<b>Hotel Manager</b>	:	Regal Hotels International Limited
<b>Term of HMA</b>	:	From the Effective Date <sup>41</sup> , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of 31 December 2020.
<b>Base Fee</b>	:	Two percent (2%) of the Gross Revenue <sup>42</sup>
<b>Incentive Fee</b>	:	Five percent (5%) of the excess of the GOP <sup>43</sup> over the Base Fee and the Fixed Charges.

### 4. RETAIL/OFFICE TENANCY SCHEDULES

#### Retail<sup>44</sup>

<b>Total Retail Area (gross area)</b>	:	1,800 sq.ft. (167 sq.m.)
<b>Occupied Area (gross area)</b>	:	1,800 sq.ft. (167 sq.m.)
<b>Vacant Area (gross area)</b>	:	0 sq.ft. (0 sq.m.)
<b>Occupancy Rate</b>	:	100%
<b>Monthly Base Rent</b>	:	HK\$172,500 (The tenancy is inclusive of management fees and air-conditioning charges but exclusive of rates.)

<sup>41</sup> According to the Hotel Management Agreement, “Effective Date” means 1 January 2011.

<sup>42</sup> According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

<sup>43</sup> According to the Hotel Management Agreement, “Gross Operating Profit” means Total Hotel Revenue less Hotel Operating Expenses during the same period.

<sup>44</sup> The areas quoted exclude spaces which are used by ICWC.



### Tenancy Expiry Profile

Year	Gross area		Monthly		No. of	
	(sq.ft.)	% of Total	Rent (HK\$)	% of Total	Tenancy	% of Total
Year Ending 2017	1,800	100%	172,500	100%	1	100%
<b>Total</b>	<b>1,800</b>	<b>100%</b>	<b>172,500</b>	<b>100%</b>	<b>1</b>	<b>100%</b>

### Tenancy Duration Profile

Tenancy Duration	Gross area		Monthly		No. of	
	(sq.ft.)	% of Total	Rent (HK\$)	% of Total	Tenancy	% of Total
More than 2 years and up to 3 years	1,800	100%	172,500	100%	1	100%
<b>Total</b>	<b>1,800</b>	<b>100%</b>	<b>172,500</b>	<b>100%</b>	<b>1</b>	<b>100%</b>

**Latest Expiry Date** : 9 April 2017

**Rent-free Period** : 1 month

**Option to Renew** : N/A

**Summary of Terms** : The Landlord<sup>45</sup> 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

### Office

**Total Office Area (gross area)** : 8,304 sq.ft. (771 sq.m.)

**Occupied Area (gross area)** : 8,304 sq.ft. (771 sq.m.)

**Vacant Area (gross area)** : 0 sq.ft. (0 sq.m.)

**Occupancy Rate** : 100%

**Monthly Base Rent** : HK\$388,627 (All tenancies are inclusive of air-conditioning charges and management fees, but exclusive of rates.)

<sup>45</sup> All tenancy agreements are entered into by Sonnix Limited as Landlord.

### Tenancy Expiry Profile

Year	Gross Area		Monthly		No. of	
	(sq. ft.)	% of Total	Rent (HK\$)	% of Total	Tenancy	% of Total
Year Ending 2017	8,304	100%	388,627	100%	3	100%
<b>Total</b>	<b>8,304</b>	<b>100%</b>	<b>388,627</b>	<b>100%</b>	<b>3</b>	<b>100%</b>

### Tenancy Duration Profile

Tenancy Duration	Gross Area		Monthly		No. of	
	(sq. ft.)	% of Total	Rent (HK\$)	% of Total	Tenancy	% of Total
More than 3 years and up to 4 years	8,304	100%	388,627	100%	3	100%
<b>Total</b>	<b>8,304</b>	<b>100%</b>	<b>388,627</b>	<b>100%</b>	<b>3</b>	<b>100%</b>

**Latest Expiry Date :** 31 March 2017

**Rent-free Period :** 1 month

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

**Summary of Terms** The Landlord<sup>46</sup> 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.

## 5. ESTIMATED NET PROPERTY YIELD<sup>47</sup>

3.0%

## 6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2015

HK\$801,000,000 (Eight Hundred and One Million Hong Kong dollars)

<sup>46</sup> All tenancy agreements are entered into by Sonnix Limited as Landlord

<sup>47</sup> The Estimated Net Property Yield of ICWC is derived from the net income receivable in 2015 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

#### 1. PROPERTY DESCRIPTION

The iclub Sheung Wan Hotel ("ICSW") is a 34-storey hotel with 248 rooms and suites. The hotel started operations in mid-2014. ICSW is located in Sheung Wan, a mature commercial/residential area. It is close to Central, the primary CBD area of Hong Kong. The hotel is easily accessible through MTR, taxi and various bus lines.

<b>Site Area<sup>48</sup></b>	:	472 sq. m.
<b>Gross Floor Area</b>	:	7,197 sq. m
<b>Covered Floor Area</b>	:	Approx. 9,600 sq. m.
<b>Town Planning Zoning</b>	:	"Commercial" zone under Sai Ying Pun & Sheung Wan Outline Zoning Plan No. S/H3/29 dated 10 September 2013.

<sup>48</sup> The site area excludes an area of 32.803 sq.m. to be reserved for lane pattern but includes an area of 24.398 sq.m. to be surrendered for road widening.

## Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iSelect	72	iPlus Premier	28
iPlus	60	iBusiness Premier	14
iBusiness	42	iSuite	18
iSelect Premier	7	iResidence	7
		<b>Total</b>	<b>248</b>

Note: The room sizes range from 13 sq.m. to 54 sq.m.

## Other Facilities

Other facilities include a club lounge and a gymnasium.

## 2. 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)
- Debenture and Mortgage dated 10 February 2014 in favour of The Hongkong and Shanghai Banking Corporation Limited, registered vide Memorial No. 14030702240038. (For all lots of ICSW)
- 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)

### 3. HOTEL OPERATION

#### Hotel Performance in 2015

**Occupancy Rate** : 92%

**Average Room Rate** : HK\$819

#### Lease Agreement

**Lessor** : Tristan Limited

**Lessee** : Favour Link International Limited

**Term of Lease Agreement** : Commencing from the Effective Date<sup>49</sup> and expiring on 31 December 2019

**Rental** : The annual rent payable 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 payable in respect of the remaining lease term shall be determined based on an annual market rental review performed by an independent professional property valuer who will be jointly appointed by the Lessor and the Lessee.

<sup>49</sup> According to the Lease Agreement, "Effective Date" means 10 February 2014.

### **Hotel Management Agreement (“HMA”)**

<b>Hotel Manager</b>	:	Regal Hotels International Limited
<b>Term of HMA</b>	:	From the Effective Date <sup>50</sup> , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of the tenth anniversary of the Effective Date.
<b>Base Fee</b>	:	One percent (1%) of Gross Revenue <sup>51</sup> (for so long as the Lease Agreement is in subsistence); or  Two percent (2%) of Gross Revenue (for other cases during the Operating Term)
<b>Incentive Fee</b>	:	One percent (1%) of the excess of the Adjusted GOP <sup>52</sup> 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)

## **4. LICENCE SCHEDULES**

### **Licences for Mobile Radio Equipment, Integrated Radio Systems and Others**

<b>Number of Licence</b>	:	1
<b>Monthly Licence Fee</b>	:	HK\$60,000
<b>Latest Expiry Date</b>	:	31 December 2017

## **5. ESTIMATED NET PROPERTY YIELD<sup>53</sup>**

5.7%

## **6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2015**

HK\$1,440,000,000 (One Billion Four Hundred and Forty Million Hong Kong dollars)

<sup>50</sup> According to the Hotel Management Agreement, “Effective Date” means 10 February 2014.

<sup>51</sup> According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

<sup>52</sup> According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

<sup>53</sup> The Estimated Net Property Yield of ICSW is derived from the fixed rent receivable in 2015 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

#### 1. PROPERTY DESCRIPTION

The iclub Fortress Hill Hotel ("ICFH") is a 32-storey hotel with 338 guestrooms. The hotel started operations in the third quarter of 2014. ICFH is located in North Point, where the majority of developments are residential buildings. Office buildings and hotel developments can also be found in the vicinity. The hotel is easily accessible through MTR, taxi and various bus lines.

<b>Site Area</b>	:	457 sq. m.
<b>Gross Floor Area</b>	:	6,849 sq. m.
<b>Covered Floor Area</b>	:	Approx. 9,400 sq. m.
<b>Town Planning Zoning</b>	:	"Commercial/Residential" zone under North Point Outline Zoning Plan No. S/H8/24 dated 30 November 2010.

#### Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iSelect	158	iSelect Premier	36
iPlus	108	iPlus Premier	36
		<b>Total</b>	<b>338</b>

Note: The room sizes range from 10 sq.m. to 16 sq.m.

#### Other Facilities

Other facilities include a club lounge and a gymnasium.

## 2. 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.
- Debenture and Mortgage dated 28 July 2014 in favour of The Hongkong and Shanghai Banking Corporation Limited, registered vide Memorial No. 14082802380064.
- 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)

## 3. HOTEL OPERATION

### Hotel Performance in 2015

**Occupancy Rate** : 81%

**Average Room Rate** : HK\$609

### Lease Agreement

**Lessor** : Wise Decade Investments Limited

**Lessee** : Favour Link International Limited

**Term of Lease Agreement** : Commencing from the Effective Date<sup>54</sup> and expiring on 31 December 2019

**Rental** : The annual rent payable 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 payable in respect of the remaining lease term shall be determined based on an annual market rental review performed by an independent professional property valuer who will be jointly appointed by the Lessor and the Lessee.

<sup>54</sup> According to the Lease Agreement, "Effective Date" means 28 July 2014.



### **Hotel Management Agreement (“HMA”)**

<b>Hotel Manager</b>	:	Regal Hotels International Limited
<b>Term of HMA</b>	:	From the Effective Date <sup>55</sup> , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of the tenth anniversary of the Effective Date.
<b>Base Fee</b>	:	One percent (1%) of Gross Revenue <sup>56</sup> (for so long as the Lease Agreement is in subsistence); or  Two percent (2%) of Gross Revenue (for other cases during the Operating Term)
<b>Incentive Fee</b>	:	One percent (1%) of the excess of the Adjusted GOP <sup>57</sup> 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)

## **4. LICENCE SCHEDULES**

### **Licences for Mobile Radio Equipment, Integrated Radio Systems and Others**

<b>Number of Licence</b>	:	1
<b>Monthly Licence Fee</b>	:	HK\$60,000
<b>Latest Expiry Date</b>	:	31 December 2017

## **5. ESTIMATED NET PROPERTY YIELD<sup>58</sup>**

5.6%

## **6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2015**

HK\$1,501,000,000 (One Billion Five Hundred and One Million Hong Kong dollars)

<sup>55</sup> According to the Hotel Management Agreement, “Effective Date” means 28 July 2014.

<sup>56</sup> According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

<sup>57</sup> According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

<sup>58</sup> The Estimated Net Property Yield of ICFH is derived from the fixed rent receivable in 2015 divided by the Market Value.

## HOTEL MARKET OVERVIEW

Over 2015, Hong Kong received a total of 59.3 million visitor arrivals, representing a single-digit year-on-year (YoY) decline of 2.5%. Despite mainland Chinese visitors continuing to be the largest source market, it was evident that its 3% YoY decline from 47.2 million in 2014 to 45.8 million pressurised the overall tourism market. Cumulative declines in visitor arrivals were also recorded in a majority of the key short-haul submarkets, such as Japan (-2.7% YoY); South Korea (-0.6% YoY); Taiwan (-0.8% YoY); and Singapore (-8.5% YoY). On the contrary, several long-haul submarkets including USA (4.5% YoY) and Canada (1.1% YoY) registered single-digit growth compared to same period in the previous year<sup>59</sup>.

Overnight visitors from Australia/New Zealand were the highest spenders at HK\$7,558 per capita in 2014, followed by European and American visitors at HK\$7,250 and HK\$7,151 respectively. However, unfavourable economic shadows cast across the globe resulted in a compression of budgets on premium while travelling; the per capita spending on hotel bills over all markets was reduced by 5.5% YoY. Notably, the per capita spending on hotel bills by overnight mainland Chinese visitors was reduced 5.3% to HK\$991 per capita. In consideration of the 11.6% increase in overnight mainland Chinese visitor arrivals in 2014, the declining figures indicate that more mainland Chinese visitors are getting price conscious and reducing their budgets for accommodation<sup>60</sup>.

Tightening budgets for hotel bills mirrored the challenges that the Hong Kong hotel industry had to face in 2015; the performance of High Tariff A hotels finished 2015 with an average rate of HK\$2,267 at an occupancy of 83%. Compared to 2014, the average rate declined by 7.5% YoY and occupancy decreased by 3 percentage points. As a result of compression from the top-tier hotel market, High Tariff B and Medium Tariff hotels also suffered 11.5% and 11.0% declines in average rate to HK\$1,067 and HK\$677, and recorded occupancy rate at 88% and 87%, respectively. Overall, the hotel room rates consequently declined by 9.2% to HK\$1,337 per night with decreasing occupancy by 4 percentage points to 86% for 2015. Notably, the traditional core locations such as Central, Wan Chai and Tsim Sha Tsui were less affected than newly developing districts such as Kowloon Bay and Shatin in New Territories<sup>61</sup>.

The overall Hong Kong hotel market experienced 1.5% YoY room supply growth in 2015, attributable to a noticeable 2.9% growth in room supply of the Medium Tariff hotel market, which continued from 9.9% YoY growth in 2014 from 20,048 rooms to 22,029 rooms; in 2015, the opening of hotels with smaller room inventories allowed the number of Medium Tariff hotels to increase from 95 to 104 and increase the number of rooms from 22,029 to 22,678; the High Tariff B hotel market remained flat with new supply of less than 200 rooms; the High Tariff A hotel market welcomed the addition of a 516-room hotel to the family, upgraded from High Tariff B after a refurbishment<sup>62</sup>.

Despite Hong Kong's hospitality industry struggling against the decline in visitor arrivals and weak hotel performance in 2015, outlook over the medium to long term remains optimistic with distinct signs of improvements with the second half of 2015 getting close to the figures in 2014. The recent setback reflects the over-reliance of mainland visitors only, and at the same time it highlights the opportunity to diversify its source of tourism to attract higher value-added travellers. Expansion of infrastructure and diversification of attractions with cultural venues will continue to support Hong Kong as a world-class destination for both leisure and commercial travellers.

<sup>59</sup> Source: HKTB, Visitor Arrival Statistics – December 2015.

<sup>60</sup> Source: HKTB, Tourist Expenditure Associated to Inbound Tourism 2014.

<sup>61</sup> Source: HKTB, Hotel Room Occupancy Report – December 2015.

<sup>62</sup> Source: HKTB, Hotel Room Occupancy Report – December 2015.

The recently completed Hong Kong Observation Wheel in December 2014 and ongoing extensions of both Disneyland and Ocean Park, as well as the opening of a second berth at the Kai Tak Cruise Terminal are expected to further draw international leisure travellers to Hong Kong. The mainland's cruise policy, which allows mainland tour groups to take cruises from Hong Kong to Taiwan, from where they can proceed to Japan or Korea on the same cruises before returning to mainland China, is especially likely to create a favourable tourism environment to attract more mainland visitors to take cruises from Hong Kong<sup>63</sup>.

Hong Kong's excellent geographical location, low risk, ease of doing business and a strong institutional structure, are all positive attributes that will continue to strengthen Hong Kong's position as a place for doing both regional and international business, and the number of business travellers is expected to further increase accordingly. According to CEI's Industry Survey 2015 organised by CEI Asia magazine, the Hong Kong Convention and Exhibition Centre (HKCEC) and AsiaWorld Expo (AWE) were cited among the top three venues in Asia. With the tight supply of exhibition spaces at HKCEC and AWE during peak seasons, the Chief Executive announced in the 2015 Policy Address that the government will consider constructing a new convention centre above the Exhibition Station of the Shatin to Central Link around 2020<sup>64</sup>.

A number of Hong Kong's large-scale infrastructure projects, namely the Guangzhou–Shenzhen–Hong Kong Express Rail Link, the Hong Kong–Zhuhai–Macao Bridge (HZMB), a rail connection between the Hong Kong and Shenzhen airports, the Tuen Mun–Chek Lap Kok Link and the Tuen Mun Western Bypass are expected to be completed between 2016 and 2018 to enhance the connectivity to nearby major cities in mainland China, especially within the Pearl River Delta (PRD) region.

Furthermore, the Hong Kong International Airport's (HKIA) Terminal 2 will be closed from 2019 to 2023 for an expansion of the Three-Runway System (3RS). According to HKIA, the International Air Transport Association (IATA) Consulting estimated that 3RS will allow handling of future traffic demand up to 102 million passengers, 8.9 million tonnes of cargo and 607,000 aircraft movements per year by 2030<sup>65</sup>. The expansion project of HKIA will allow Hong Kong to cater to more international visitors.

In fact, the Hong Kong Government has projected visitor arrival figures to reach around 70 million and 100 million in 2017 and 2023 respectively, based on the trend and assuming steady growth of mainland and short-haul visitor arrivals, as well as very mild growth from the long-haul markets<sup>66</sup>.

With completions of new hotels in the pipeline, Hong Kong is expected to have 2,558 more hotel rooms in 2016. By 2019, the total number of rooms is expected to reach 84,395, 7,439 rooms more than in 2016<sup>67</sup>. While the majority of the new hotel supply is concentrated in the non-core districts of the New Territories with relatively small-scale developments, the new High-Tariff hotels to be opened in Hung Hom and Tsim Sha Tsui by 2018 and 2020 are expected to raise the average room rates of the overall hotel market.

<sup>63</sup> Source: Tourism Commission (Commerce and Economic Development Bureau) – Legislative Council Panel on Economic Development HKTB Work Plan for 2015-16, February 2015.

<sup>64</sup> Source: HKTDC Research – Convention and Exhibition Industry in Hong Kong, April 2015.

<sup>65</sup> Source: Airport Authority Hong Kong – Future Development

<sup>66</sup> Source: Commerce and Economic Development Bureau, Assessment Report on Hong Kong's Capacity to Receive Tourists, Dec 2013.

<sup>67</sup> Source: HKTB, Hotel Supply Situation – as at September 2015.

## 1. REGAL AIRPORT HOTEL

Regal Airport Hotel (RAH) is located at Hong Kong International Airport (HKIA) and is the only airport hotel in Hong Kong that offers a direct link to the airport passenger terminals by an air-conditioned footbridge. With its strategic location at Hong Kong International Airport, the Regal Airport Hotel benefits from the continuous traffic generated by the airport.

In 2015, the airport's throughput for passengers and cargo was 68.5 million<sup>68</sup> (an increase of 8.1% YoY) and 4.4 million tons (an increase of 0.1% YoY), respectively. The airport is connected to about 190 destinations. The expansion project to be begun in 2017 at HKIA is expected to further strengthen its competitiveness within the region, and in turn benefit RAH in the long term; the Three-Runway System (3RS) will allow handling of future traffic demand of up to 102 million passengers, 8.9 million tonnes of cargo and 607,000 aircraft movements per year by 2030.

RAH is also located close to one of the two main venues for MICE events – the AsiaWorld Expo – as well as major tourist attractions, such as Hong Kong Disneyland. Shopping facilities and restaurants are located at the nearby Citygate Outlets Shopping Centre and in the passenger terminals. Other leisure and entertainment facilities nearby include SkyPlaza and the SkyCity Nine Eagles Golf Course. Given its extensive transport facilities located at the airport, RAH enjoys regular connectivity via the Airport Express Line that links to the Mass Transit Railway, taxis and buses.

The majority of the room demand at RAH is generated by business travellers, mainly attributable to its strategic location and proximity to AsiaWorld Expo. In 2015, business travellers and airline crews accounted for 49.0% and 26.1% of the total number of guests, respectively, accommodated by RAH. Additionally, there were special demands generated by emergency layovers due to delays/cancellations of flights (1.6%). The leisure segment at RAH accounted for 23.3% of the total guests.

The geographical customer market segmentation at RAH is in line with overall market segmentation of total international visitor arrivals to HKIA. The main market segmentation at RAH was made up of Asian visitors excluding mainland China (43.5%) and mainland China visitors (30.1%) in 2015. The guests from the Americas, Europe and other regions represented 26.4% of the total demand.

There are no planned additions to the supply of hotel rooms in the airport catchment area in the near future, which will leave the main competition from the two existing hotels nearby, namely the Novotel Citygate Hong Kong in Tung Chung and the Hong Kong SkyCity Marriott Hotel adjacent to AsiaWorld Expo. RAH is considered to have a competitive advantage over the others due to its strategic location with its close proximity to the passenger terminals. Besides, the competition with the two hotels is expected to be minimal as all hotels have different market positioning and pricing strategies.

Based on the projected long-term growth in airport traffic turnover, the strategic location of RAH, its strong distribution networks both worldwide and in mainland China and the growing brand awareness of Regal Group in mainland China, it is anticipated that RAH will achieve positive growth in both occupancy and average room rates in 2016.

<sup>68</sup> Source: "Finalised Civil International Air Traffic Statistics at HKIA Year 2015" Hong Kong International Airport.

## 2. REGAL HONGKONG HOTEL

Regal Hongkong Hotel (RHK) is located in Causeway Bay, one of Hong Kong's major shopping areas. The hotel benefits from its excellent accessibility through extensive transport links, namely the Mass Transit Railway, taxis, buses and trams, as well as road networks. The Causeway Bay Mass Transit Railway Station is just a few minutes' walk from RHK.

RHK is close to shopping and entertainment facilities, such as the Sogo Department Store, Times Square, Fashion Walk and Lee Gardens, as well as a variety of restaurant facilities. The sports and recreational facilities, such as the Hong Kong Stadium, Victoria Park, and Happy Valley Racecourse in the vicinity help RHK to attract visitors who attend different international events.

While its immediate neighbourhood is characterised as a shopping destination, RHK enjoys stronger demand for rooms from among business visitors, traders, exhibitors and multinational companies (61.2% in 2015) compared to leisure travellers (38.8%), given its proximate location to the Hong Kong Convention and Exhibition Centre. RHK also benefits from the close proximity to various corporations and businesses based in Causeway Bay and neighbouring areas which attract business visitors to stay at the hotel.

The geographical customer market segmentation at RHK was mainly composed of mainland Chinese visitors (53.3%) and Asian visitors excluding mainland China (33.2%) in 2015. The guests from the Americas, Europe and other regions represented 13.5% of the total demand.

No new hotels were opened in Causeway Bay in 2015; the 69-room Proposed Hotel<sup>69</sup> at 32-34 Tang Lung Street is expected to open in early 2017. While neither the brand nor management company has been unveiled, the Proposed Hotel is unlikely to compete with RHK due to its scale of operation. Furthermore, the high demand for hotel rooms in the Causeway Bay area is likely to absorb the additional 69 room supplies easily.

Based on the anticipated recovery in the overall hotel industry and supply constraints in the short to medium term, as well as the strategic location and quality of services, strong distribution networks both worldwide and in mainland China, and the growing brand awareness of Regal Group in mainland China, it is anticipated that RHK will achieve positive growth in both occupancy and average room rates in 2016.

<sup>69</sup> Source: "Hotel Supply Situation – as at September 2015", Research, Hong Kong Tourism Board.

### 3. REGAL KOWLOON HOTEL

Regal Kowloon Hotel (RKH) is located in the heart of Tsim Sha Tsui East, a traditional tourism and commercial area in the Kowloon District of Hong Kong. The hotel benefits from its proximity to shopping, restaurants, entertainment and recreational facilities including Harbour City (includes four areas, namely Ocean Terminal, Ocean Centre, Gateway Arcade and The Marco Polo Hongkong Hotel Arcade), iSquare, K11, the One, the Hong Kong Cultural Centre, 1881 Heritage and the Hong Kong Science Museum. RKH is well served by extensive transport links, such as the Mass Transit Railway, taxis and buses connecting to other districts of Hong Kong.

Notably, RKH caters to the highest proportion of business travellers among five initial hotels at 64.9% in 2015, mainly attributable to its proximity to the office cluster in Tsim Sha Tsui East and overflow demand from commercial developments in the centre of Tsim Sha Tsui. The proportion of leisure travellers at RKH was lower than business travellers, accounting for 34.9% of the total guests.

The geographical customer market segmentation at RKH is composed of mainly mainland Chinese visitors (39.0%) and Asian visitors excluding mainland China (40.1%) in 2015. Visitors from the Americas, Europe and other regions represented 20.9% of the total demand.

Tsim Sha Tsui welcomed the opening of the 63-room Popway Hotel located at 117 Chatham Road South in the second quarter of 2015. Similar to the planned additions of five Proposed Hotel supplies with a total of 460 rooms<sup>70</sup> in 2016, the new supply is unlikely to apply significant pressure on RKH due to differences in scale of operation, positioning and target markets. Furthermore, the high demand for hotel rooms in the Tsim Sha Tsui market is likely to absorb the additional room supply easily.

Based on the anticipated recovery in the overall hotel industry and supply constraints in the short to medium term, as well as the strategic location and quality of services, strong distribution networks both worldwide and in mainland China, and the growing brand awareness of Regal Group in mainland China, it is anticipated that RKH will achieve positive growth in both occupancy and average room rates in 2016.

<sup>70</sup> Source: "Hotel Supply Situation – as at September 2015", Research, Hong Kong Tourism Board.

#### 4. REGAL ORIENTAL HOTEL

Regal Oriental Hotel (ROH) is located in Kowloon City, opposite the vibrant Kai Tak Development area (KTD). Although ROH is not served by rail links, it is well served by an arterial road – Prince Edward Road East – connecting Kowloon East with the nearby industrial and business districts, such as Kwun Tong, Kowloon Bay, Tsim Sha Tsui and Mongkok in Kowloon. Tourist attractions such as the Chi Lin Nunnery, Wong Tai Sin Temple and the Hau Wong Temple are located nearby, along with shopping, restaurant and entertainment facilities, as well as the major retail/leisure facility – Festival Walk at Kowloon Tong Mass Transit Railway Station.

The major development in the vicinity of ROH is KTD, which offers opportunities to bring the harbour to the people and revitalise surrounding districts such as Kowloon City, Wong Tai Sin and Kwun Tong. Plans include two cruise terminal berths, a stadium, public parks, 30,000 residential units, 8.6 million sq ft of retail and hotels, as well as 11.4 million sq ft of office spaces<sup>71</sup>.

Furthermore, future development and extension of the Shatin to Central Link<sup>72</sup> by the MTR Corporation Limited and skytrain/tram is expected to improve the accessibility of ROH via the proposed Kai Tak Station to Hong Kong Island, Kowloon, the New Territories and mainland China. All of these expansion projects are expected to boost guest demand for ROH.

The demand profile for ROH is relatively balanced compared to other Initial Hotels, with 56.7% business travellers and 43.1% leisure travellers.

The geographical customer market segmentation at ROH is mainly composed of Asian visitors excluding mainland China (51.7%) and mainland Chinese visitors (36.9%) in 2015. Visitors from the Americas, Europe and other regions represented 11.4% of the total demand.

No new hotels were completed in Kowloon City in 2015. While the 340-room iclub To Kwa Wan Hotel at 8-12A Ha Heung Road and the 599-room Shangri-La Hotel, Hung Hom Bay at the junction of Hung Luen Road and Wa Shun Street are slated to open in the second and third quarters of 2016<sup>73</sup>, the competition with the two hotels is expected to be minimal as all hotels have different market positioning and pricing strategies.

Based on the anticipated recovery in the overall hotel industry and supply constraints in the short to medium term, as well as the strategic location and quality of services, strong distribution networks both worldwide and in mainland China, and the growing brand awareness of Regal Group in mainland China, it is anticipated that ROH will achieve positive growth in both occupancy and average room rates in 2016.

<sup>71</sup> Source: Development Bureau.

<sup>72</sup> Source: MTR's website. Available at [www.mtr.com.hk](http://www.mtr.com.hk).

<sup>73</sup> Source: "Hotel Supply Situation – as at September 2015", Research, Hong Kong Tourism Board.

## 5. REGAL RIEVERSIDE HOTEL

Regal Riverside Hotel (RRH) is located in Sha Tin, overlooking the picturesque Shing Mun River. The hotel is easily accessible to Sha Tin Mass Transit Railway Station, which allows the hotel to benefit from easy accessibility to both Kowloon and mainland China. The future development of the Sha Tin to Central Link<sup>74</sup> is expected to improve the accessibility of RRH to other districts of Hong Kong.

Shopping and dining facilities are located at the nearby New Town Plaza. Sports and recreational facilities are available at Shatin Racecourse and the Shing Mun River nearby.

As the largest hotel in Shatin, RRH enjoys bookings from tourist groups, and corporations/organisations that have close business links in mainland China and major cities in Asia. The geographical customer market segmentation at RRH is mainly composed of mainland Chinese visitors (44.4%) and Asian visitors excluding mainland China (46.6%). Visitors from the Americas, Europe and other regions represented 9% of the total demand.

The demand profile for RRH is relatively balanced compared to other Initial Hotels, with 55.0% business travellers and 44.7% leisure travellers.

No new hotels were completed in Sha Tin in 2015, and there are no new hotels scheduled for completion in 2016 in the area.

Based on the anticipated recovery in the overall hotel industry and supply constraints in the short to medium term, as well as the strategic location and quality of services, strong distribution networks both worldwide and in mainland China, and the growing brand awareness of Regal Group in mainland China, it is anticipated that RRH will achieve positive growth in both occupancy and average room rates in 2016.

## 6. ICLUB WAN CHAI HOTEL

iclub Wan Chai Hotel (ICWC) is located in Wan Chai, one of the busiest commercial districts integrated with the traditional culture of Hong Kong. The hotel enjoys close proximity to the Hong Kong Convention and Exhibition Centre (HKCEC) and a cluster of prime office buildings such as Sun Hung Kai Centre and Great Eagle Centre, which are mainly located in the northern Wan Chai area. As a result, 87.3% of the room night demand at ICWC was generated by business travellers in 2015.

ICWC is also well positioned to cater to the leisure travellers; the hotel is bounded by Hennessy Road and Johnston Road, where there are a variety of restaurants and specialty stores. The Wan Chai area is preferred by leisure tourists for its rich culture and convenience of transport with its accessibility through various modes of transport, including Wan Chai Mass Transit Railway Station, buses, taxis and trams. As such, leisure travellers accounted for 12.7% of the total accommodated room nights in 2015.

The geographical customer market segmentation at ICWC was mainly composed of Asian visitors excluding mainland China (40.7%) and mainland Chinese visitors (30.6%) in 2015. The guests from the Americas, Europe and other regions represented 28.7% of the total demand.

<sup>74</sup> Source: MTR's website. Available at [www.mtr.com.hk](http://www.mtr.com.hk).



There were no completions of new hotels in 2015. While a 299-room Proposed Hotel at 373 Queens' Road East is expected to open in third quarter 2016<sup>75</sup>, the location and the target group of the Proposed Hotel is unlikely to overlap with ICWC. Given its proximity to HKCEC and a well-developed northern Wan Chai business area, ICWC will continue to catch growing demand from business travellers, especially when there is limited competition due to no new supply in the near future. Between 2017 and 2019, potential competition may arise from openings of a Proposed Hotel at 10 - 12 Stewart Road and 239 Jaffe Road with a supply of 115 rooms by the end of 2017 and a Proposed Hotel at 25 - 27 Morrison Hill Road with a supply of 161 rooms by August 2019<sup>76</sup>. However, brands and positioning of the Proposed Hotels are yet to be announced.

Located near HKCEC and good-quality office developments, the ICWC commands strong demand from business travellers. In addition, the hotel will continue to be the prime choice of millennial travellers who are more prone to choose accommodation characterised by modern technology. Based on the anticipated recovery in the overall hotel industry and supply constraints in the short to medium term, as well as the strategic location and quality of services, strong distribution networks both worldwide and in mainland China, and the growing brand awareness of Regal Group in mainland China, it is anticipated that ICWC will achieve positive growth in both occupancy and average room rates in 2016.

## 7. ICLUB SHEUNG WAN HOTEL

iclub Sheung Wan Hotel (ICSW) is located in Sheung Wan. The area is characterised by specialty shops, restaurants of varied cuisines and a number of high-quality Grade A office buildings such as The Center, 181 Queen's Road Central and Cosco Tower. The hotel is easily accessible through Sheung Wan Mass Transit Railway Station, trams, taxis, buses and minibuses. ICSW is ten minutes away from the Hong Kong-Macau Ferry terminal which provides ferry and helicopter services to Macau, and ferry services to a number of cities in southern China including Zhongshan, Zhuhai and Panyu in Guangzhou, and Shekou in Shenzhen. Also, the hotel is a 15-minute drive to Tsim Sha Tsui and Kowloon Station via the Western Harbour Crossing.

Given its proximity to Central as a spin-off area, ICSW therefore catches a good quantity of business travellers. In addition, the hotel is also able to attract leisure travellers since its locality is well-known for the specialty stores selling quality dried foods and Chinese medicines, for instance those clustered on Bonham Strand West and Des Voeux Road West and in Western Market, which is a heritage building renovated in the early 1990s. The demand profile of ICSW was composed of 71.5% business travellers and 28.5% leisure travellers in 2015.

The geographical customer segmentation of ICSW in 2015 comprises 30.4% of guests from mainland China, 47.0% of guests from Asia excluding mainland China and 22.6% from other regions including Europe, the Americas, etc.

Sheung Wan will welcome the opening of The Kush Hotel with 199 rooms in the fourth quarter of 2016<sup>77</sup>. However, the competition is expected to have limited influence on the performance of ICSW due to its well-established branding awareness. There are no other new hotels scheduled for completion between 2016 and 2018 in the area.

Located near Central business area with good-quality office developments, the ICSW commands strong demand from business travellers. In addition, the hotel will continue to be the prime choice of millennial travellers who are more prone to choose accommodation characterised by modern technology. Based on the anticipated recovery in the overall hotel industry and supply constraints in the short to medium term, as well as the strategic location and quality of services, strong distribution networks both worldwide and in mainland China, and the growing brand awareness of Regal Group in mainland China, it is anticipated that ICSW will achieve positive growth in both occupancy and average room rates in 2016.

<sup>75</sup> Source: "Hotel Supply Situation – as at September 2015", Research, Hong Kong Tourism Board.

<sup>76</sup> Source: "Hotel Supply Situation – as at September 2015", Research, Hong Kong Tourism Board.

<sup>77</sup> Source: "Hotel Supply Situation – as at September 2015", Research, Hong Kong Tourism Board.

## 8. ICLUB FORTRESS HILL HOTEL

iclub Fortress Hill Hotel (ICFH) is located in North Point, one of the key decentralised business districts and a mature residential area on Hong Kong Island. North Point is well-connected with a variety of transportation facilities including Fortress Hill Mass Transit Railway Station, taxis, trams and buses.

Fortress Hill is close to both Quarry Bay and Causeway Bay. The former is a key decentralised business area with significant high-quality office developments and the latter is famous for well-known shopping destinations such as Times Square, Lee Gardens, Sogo Department Store and Hysan Place. Fortress Hill also accommodates office developments such as 169 Electric Road, AIA Tower, Fortress Tower and Citicorp Centre. In addition, the area is in close proximity to Victoria Park, the Hong Kong Stadium and the Happy Valley Race Course which can be accessed via railway and buses. Therefore, ICFH had a balanced guest mix profile with 51.6% business guests and 48.4% leisure guests in 2015.

In terms of geographical segmentation in 2015, ICFH guest profile was composed of 38.7% of guests from Asia excluding mainland China, 37.4% of guests from mainland China, and 23.9% of guests from other regions.

No new hotels were completed in Fortress Hill in 2015, and there are no new hotels scheduled for completion in 2016 in the area. The next opening will be a 840-room Proposed Hotel at Oil Street in 2017 and a 681-room Proposed Hotel at North Point Estate Lane and Shu Kuk Street in 2018<sup>78</sup>. These two future hotels are unlikely to compete with ICFH due to the scale of operation and different targeted customer mix. The recent closing of the 362-room Newton Hotel, which was located at 218 Electric Road, has eased competition with ICFH; it has left the 277-room Empire Hotel, which is located at 8 Wing Hing Street, targeting business travellers, as the sole direct competitor.

ICFH will continue to be the prime choice of millennial travellers who are more prone to choose accommodation characterised by modern technology. Furthermore, based on the anticipated recovery in the overall hotel industry and supply constraints in the short to medium term, as well as the strategic location and quality of services, strong distribution networks both worldwide and in mainland China, and the growing brand awareness of Regal Group in mainland China, it is anticipated that ICFH will achieve positive growth in both occupancy and average room rates in 2016.

<sup>78</sup> Source: "Hotel Supply Situation – as at September 2015", Research, Hong Kong Tourism Board.

## SUMMARY OF PROPERTY PORTFOLIO

*As at 31st December, 2015*

	<b>Description</b>	<b>Use</b>	<b>Lease</b>	<b>Gross Floor Area (sq.m.)</b>	<b>Approx Covered Floor Area (sq.m.)</b>	<b>Percentage interest attributable to Regal REIT</b>
(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

	<b>Description</b>	<b>Use</b>	<b>Lease</b>	<b>Gross Floor Area</b> (sq.m.)	<b>Approx Covered Floor Area</b> (sq.m.)	<b>Percentage interest attributable to Regal REIT</b>
(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

## 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, 2015 HK\$'000	Year ended 31st December, 2014 HK\$'000	Year ended 31st December, 2013 HK\$'000	Year ended 31st December, 2012 HK\$'000	Year ended 31st December, 2011 HK\$'000
Gross rental and hotel revenue	1,001,720	1,000,711	866,962	844,350	736,034
Net rental and hotel income	971,594	971,371	837,106	814,390	707,029
Profit/(loss) before tax and distributions to Unitholders	(1,406,775)	357,753	436,293	3,643,729	3,070,523
Profit/(loss) for the year, before distributions to Unitholders	(1,527,821)	238,454	342,558	3,548,799	2,997,263
Distributable income for the year attributable to Unitholders	<u>550,334</u>	<u>532,924</u>	<u>497,076</u>	<u>464,658</u>	<u>397,886</u>
Total distributions per Unit	<u>HK\$0.154</u>	<u>HK\$0.162</u>	<u>HK\$0.150</u>	<u>HK\$0.140</u>	<u>HK\$0.120</u>

### Summary of the assets and liabilities

	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Non-current assets:					
Property, plant and equipment	592,000	691,000	700,000	740,000	615,000
Investment properties	21,480,000	23,428,000	20,380,000	20,292,000	17,154,000
Other non-current assets	—	—	948,000	—	—
Current assets	<u>118,418</u>	<u>168,502</u>	<u>1,174,951</u>	<u>169,756</u>	<u>153,306</u>
Total assets	<u>22,190,418</u>	<u>24,287,502</u>	<u>23,202,951</u>	<u>21,201,756</u>	<u>17,922,306</u>
Current liabilities	220,888	234,870	335,624	117,909	4,741,639
Non-current liabilities	<u>8,598,341</u>	<u>8,550,062</u>	<u>7,093,191</u>	<u>5,152,801</u>	<u>528,818</u>
Total liabilities	<u>8,819,229</u>	<u>8,784,932</u>	<u>7,428,815</u>	<u>5,270,710</u>	<u>5,270,457</u>
Net assets attributable to Unitholders	<u>13,371,189</u>	<u>15,502,570</u>	<u>15,774,136</u>	<u>15,931,046</u>	<u>12,651,849</u>
Net asset value per Unit attributable to Unitholders	<u>HK\$4.105</u>	<u>HK\$4.759</u>	<u>HK\$4.843</u>	<u>HK\$4.891</u>	<u>HK\$3.884</u>



