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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)

Managed by



2019 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL AND BUSINESS HIGHLIGHTS

For the year ended 31st December, 2019

	2019 HK\$ million	2018 HK\$ million	% Change
Gross rental revenue	948.7	983.7	-3.6%
Gross hotel revenue	26.9	38.3	-29.6%
Net rental and hotel income	956.0	990.6	-3.5%
Profit/(Loss) for the year, before distributions to Unitholders*	(2,102.3)	2,251.7	–
Core profit, excluding fair value changes on investment properties	420.3	462.5	-9.1%
Distributable income for the year attributable to Unitholders	<u>445.2</u>	<u>489.2</u>	-9.0%
Total assets	<u>25,370.3</u>	<u>27,981.8</u>	-9.3%
Net assets attributable to Unitholders	<u>14,671.1</u>	<u>17,314.5</u>	-15.3%
Final distribution per Unit	<u>HK\$0.056</u>	<u>HK\$0.076</u>	-26.3%
Total distributions per Unit	<u>HK\$0.124</u>	<u>HK\$0.150</u>	-17.3%
Net Asset Value per Unit attributable to Unitholders	<u>HK\$4.504</u>	<u>HK\$5.315</u>	-15.3%

* Includes revaluation deficit of HK\$2,522.6 million and surplus of HK\$1,789.1 million (after taking into account capital expenditures incurred) that arose from fair value changes on investment properties based on independent valuer appraisals as at 31st December, 2019 and 31st December, 2018, respectively.

- Net rental and hotel income amounted to HK\$956.0 million (2018: HK\$990.6 million).
- Loss for the year, before distributions to Unitholders, amounted to HK\$2,102.3 million (2018: profit of HK\$2,251.7 million), including fair value loss of HK\$2,522.6 million (2018: fair value gain of HK\$1,789.1 million) arising from the changes in the appraised values of the investment properties.
- Core profit, excluding the fair value changes on investment properties, amounted to HK\$420.3 million (2018: HK\$462.5 million).
- Total distributable income amounted to HK\$445.2 million, which was 9.0% lower than the HK\$489.2 million reported in 2018. The decrease was primarily attributable to the reduction in the overall income from the property portfolio owned by Regal REIT as well as the increase in the financing costs incurred due to the rise in HIBOR during the year, on which the bank loans of Regal REIT are based.
- As at 31st December, 2019, net assets attributable to Unitholders amounted to HK\$14,671.1 million, representing a net asset value of HK\$4.504 per Unit (31st December, 2018: HK\$5.315 per Unit).
- Final distribution of HK\$0.056 per Unit for 2019 (2018: HK\$0.076 per Unit). Total distributions will amount to HK\$0.124 per Unit for 2019 (2018: total distributions of HK\$0.150 per Unit).
- As the market rentals for the five Initial Hotels and two iclub Hotels that are leased to RHIHL were determined annually in advance, while the iclub Ma Tau Wai Hotel is still within the initial fixed rental period, the overall rental income for 2019 as a whole was not substantially affected by the market downturn in the second half of the year.
- Regal REIT currently owns a total of nine operating hotels, commanding an aggregate of 4,909 guestrooms and suites and is one of the major hotel owners in Hong Kong.
- In Hong Kong, the businesses in the consumer and tourism related sectors during the first few months of this year remained hard hit by the economic downturn and the coronavirus pandemic.

- **As the annual base rents for the five Initial Hotels, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel for 2020 have been determined to be HK\$792.0 million, in aggregate, which is only approximately 8.8% lower than the rental levels in 2019, while the iclub Ma Tau Wai Hotel is still under the initial fixed rental period, the income for Regal REIT for 2020 is, to a very significant extent, protected from the prevailing adverse market turbulences.**
- **The REIT Manager believes that the economy of Hong Kong should be resilient enough to rebound and to regain its growth momentum when the coronavirus pandemic is over and the social unrest in Hong Kong gradually subsides.**
- **The REIT Manager continues to be committed to maintaining Regal REIT's leading position as one of the pre-eminent hotels owners in Hong Kong.**

FINANCIAL RESULTS

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

Total distributable income for the year under review amounted to HK\$445.2 million, which was 9.0% lower than the HK\$489.2 million reported in 2018. The decrease in the total distributable income was primarily attributable to the reduction in the overall income from the property portfolio owned by Regal REIT as well as the increase in the financing costs incurred due to the rise in the Hong Kong Interbank Offered Rate (**HIBOR**) during the year, on which the bank loans of Regal REIT are based.

The board of directors (the “**Directors**”) of Regal Portfolio Management Limited (the “**REIT Manager**”) has resolved to declare a final distribution of HK\$0.056 per Unit for the year ended 31st December, 2019 (2018: HK\$0.076). Together with the interim distribution of HK\$0.068 (2018: HK\$0.074) per Unit paid, this brings the total distributions per Unit for 2019 to HK\$0.124 (2018: HK\$0.150). Total distributions for the year, including both the interim and final distributions, will amount to HK\$403.9 million and represent a payout ratio of 90.7% of the total distributable income for 2019.

CLOSURE OF REGISTER OF UNITHOLDERS

The Register of Unitholders will be closed from Wednesday, 13th May, 2020 to Monday, 18th May, 2020, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the distribution, all Unit certificates with completed transfer forms must be lodged with Regal REIT’s Unit registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Tuesday, 12th May, 2020. The relevant distribution warrants are expected to be despatched on or about 27th May, 2020.

HOTEL MARKET AND BUSINESS REVIEW

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

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

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

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

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

The total net property income (“NPI”) generated by the five Initial Hotels for the year amounted to HK\$606.9 million, which was 30.7% lower than the HK\$875.7 million in 2018. As the aggregate NPI was below the aggregate annual base rent of HK\$776.0 million for the year, no variable rent was earned. Under the market rental review completed in November 2019, the aggregate annual base rent for the five Initial Hotels for 2020 was determined to be HK\$710.0 million, which was HK\$66.0 million below the aggregate base rent for 2019, with variable rent continuing to be based on 50% sharing of the excess of the aggregate NPI of the Initial Hotels over the aggregate base rent.

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

Two other iclub Hotels, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel, have also been leased to the same lessee of RHIHL. Their combined annual average occupancy rate for the year was 81.4%, 11.1 percentage points below the level in 2018, while their combined average room rate decreased by 18.9%, resulting in a decline of 28.6% in their average combined RevPAR year-on-year. For the year 2019, these two hotels generated aggregate rental receipts of HK\$92.0 million, representing the base rents under their respective market rental packages. As the NPI for each of these two hotels was below its base rent level, no variable rent was earned. Similar to the Initial Hotels, their rental packages are determined annually by an independent professional property valuer. The initial fixed terms of the leases for these two hotels expired on 31st December, 2019 and Regal REIT has exercised in May 2019 the option granted to it in the respective lease agreements to extend the two leases for another five years till the end of 2024. Under the market rental reviews concluded in November 2019, the base rent for 2020 for each of the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel was determined to be HK\$41.0 million, a reduction of HK\$5.0 million in each case below the annual base rent for 2019, with variable rent continuing to be based on 50% sharing of the excess of the NPI over the base rent of each hotel.

The iclub Ma Tau Wai Hotel is the fourth iclub Hotel owned by Regal REIT, which was acquired in September 2017. This hotel carries the benefit of a lease with the same RHIHL lessee for a term of five years with escalating fixed rentals at an average yield of 4.5% per annum, which assures stable returns to Regal REIT during the hotel's start-up period. The lease will be extendable to 31st December, 2027 at the option of Regal REIT, with rentals to be based on annual market rental reviews. For the year under review, this hotel recorded cash rental receipts of HK\$58.9 million. The iclub Ma Tau Wai Hotel attained an average occupancy rate of 66.4% for the year 2019.

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

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

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

BUSINESS OUTLOOK

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review

During the year under review, Regal REIT received aggregate base rent in cash of HK\$776.0 million from Favour Link International Limited for the leases of the Initial Hotels. For the year, as the aggregate NPI from hotel operations of the Initial Hotels only amounted to HK\$606.9 million, which fell short of the aggregate base rent of HK\$776.0 million, therefore, no variable rent was receivable for the year.

iclub Wan Chai Hotel – hotel portion contributed gross hotel revenue of HK\$26.9 million and incurred operating costs and expenses amounting to HK\$16.3 million. iclub Wan Chai Hotel – non-hotel portions generated rental income of HK\$7.2 million for the year under review.

During the year ended 31st December, 2019, Regal REIT received base rent of HK\$46.0 million for the leasing of the iclub Sheung Wan Hotel. As the NPI from hotel operations of the iclub Sheung Wan Hotel was HK\$31.0 million, which fell short of the base rent of HK\$46.0 million and, hence, no variable rent was receivable.

During the year ended 31st December, 2019, Regal REIT received base rent of HK\$46.0 million for the leasing of the iclub Fortress Hill Hotel and, as the NPI from hotel operations of the iclub Fortress Hill Hotel was HK\$27.0 million, which was below the base rent of HK\$46.0 million and, therefore, no variable rent was receivable.

During the year ended 31st December, 2019, Regal REIT received rentals of HK\$58.9 million and thereby earned pro-rated fixed rental income of HK\$61.1 million recognised on the straight-line basis, from the leasing of the iclub Ma Tau Wai Hotel.

Financial Review

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

On 12th September, 2016, Regal REIT, through wholly-owned subsidiaries, entered into a facility agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$1,000.0 million (the “**2016 IH Facilities**”), for a term of five years to September 2021. The 2016 IH Facilities are secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. The 2016 IH Facilities carry a HIBOR-based interest margin and, as at 31st December, 2019, had an outstanding term loan facility of HK\$4,500.0 million and the full amount of the revolving loan facility had not been utilised.

On 8th March, 2018, Regal REIT, through a wholly-owned subsidiary, arranged a bilateral term loan facility of HK\$3,000.0 million (the “**2018 RKH Facility**”), secured by a mortgage over the Regal Kowloon Hotel. This facility bears a HIBOR-based interest margin and has a term of five years to March 2023. As at 31st December, 2019, the outstanding amount of the 2018 RKH Facility was HK\$3,000.0 million, representing the full amount of the term loan facility.

A term loan facility agreement for a principal amount of HK\$440.0 million (the “**2014 WC Facility**”), with a term of five years to December 2019, was entered into by a wholly-owned subsidiary of Regal REIT on 22nd December, 2014. The 2014 WC Facility is secured by the iclub Wan Chai Hotel and bears a HIBOR-based interest margin throughout its term. On 19th July, 2019, a new 5-year term loan facility of HK\$440.0 million (the “**2019 WC Facility**”) was granted by the same bank to early refinance the 2014 WC Facility. Most of the key terms remain unchanged while the new loan facility bears a lower interest margin with maturity in July 2024. As at 31st December, 2019, the outstanding amount on the 2019 WC Facility was HK\$440.0 million, representing the full amount of the term loan facility.

On 19th October, 2018, Regal REIT, through a wholly-owned subsidiary, arranged a bilateral loan facility of up to HK\$790.0 million, comprised of a term loan facility of HK\$632.0 million and a revolving loan facility of up to HK\$158.0 million, secured by the iclub Sheung Wan Hotel (the “**2018 SW Facilities**”). The 2018 SW Facilities bears a HIBOR-based interest margin with five years term to October 2023. As at 31st December, 2019, the utilised amount of the 2018 SW Facilities was HK\$632.0 million, representing the full amount of the term loan facility.

On 29th November, 2018, Regal REIT, through a wholly-owned subsidiary, arranged another bilateral loan facility of up to HK\$825.0 million, comprised of a term loan facility of HK\$660.0 million and a revolving loan facility of up to HK\$165.0 million, secured by the iclub Fortress Hill Hotel (the “**2018 FH Facilities**”). The 2018 FH Facilities bears a HIBOR-based interest margin and have a term of five years to November 2023. As at 31st December, 2019, the outstanding amount of the 2018 FH Facilities was HK\$660.0 million, representing the full amount of the term loan facility.

On 4th September, 2017, Regal REIT, through a wholly-owned subsidiary, arranged a term loan facility of HK\$748.0 million, secured by the iclub Ma Tau Wai Hotel (the “**2017 MTW Facility**”) with a term of three years to September 2020 and bearing a HIBOR-based interest margin. As at 31st December, 2019, the outstanding amount of the 2017 MTW Facility was HK\$748.0 million, representing the full amount of the term loan facility.

During the year under review, the HIBOR market experienced high volatility with the 1-month HIBOR rate fluctuating within a wide range of around 0.914% per annum at the low end to around 2.994% per annum at the high end and was at 2.666% per annum as of 31st December, 2019. At the year end date, the interest cost components in respect of the aggregate loan facilities are all subject to floating HIBOR-based interest rates. The REIT Manager is continuously monitoring the interest rate trends and assessing any need to contain or hedge the exposure of the finance costs and any impact that may arise from interest rate hikes.

As at 31st December, 2019, the gearing ratio of Regal REIT was 39.3% (2018: 35.7%), being the gross amount of the outstanding loans aggregating HK\$9,980.0 million, which takes into account: (a) the 2016 IH Facilities of HK\$4,500.0 million; (b) the 2018 RKH Facility of HK\$3,000.0 million; (c) the 2019 WC Facility of HK\$440.0 million; (d) the 2018 SW Facilities of HK\$632.0 million; (e) the 2018 FH Facilities of HK\$660.0 million; and (f) the 2017 MTW Facility of HK\$748.0 million, as compared to the total gross assets of Regal REIT of HK\$25,370.3 million. The gearing ratio is below the maximum 45% permitted under the Code on Real Estate Investment Trusts (the “**REIT Code**”).

Regal REIT had a total of HK\$120.2 million in unrestricted and HK\$76.0 million in restricted cash balances and bank deposits, and unutilised revolving loan facilities of HK\$1,323.0 million as at 31st December, 2019. Regal REIT maintains adequate cash reserves and revolving loan facilities and receives timely payments of rental income to satisfy its financial commitments as well as working capital requirements on an on-going basis.

As at 31st December, 2019, all nine Regal REIT's properties with an aggregate carrying value of HK\$25,131.0 million were pledged to secure bank loan facilities granted to Regal REIT.

Valuation of the Property Portfolio

As at 31st December, 2019, Regal REIT's overall property portfolio was valued at HK\$25,131.0 million (31st December, 2018: HK\$27,703.0 million). The property portfolio is comprised of (i) the five Initial Hotels, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel, the iclub Ma Tau Wai Hotel and the non-hotel portions of iclub Wan Chai Hotel that are classified as investment properties for an aggregate amount of HK\$24,517.0 million; and (ii) the owner-operated hotel portion of the iclub Wan Chai Hotel which is classified as property, plant and equipment for an amount of HK\$614.0 million.

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

Valuations of the properties as at 31st December, 2019 and 31st December, 2018 are tabulated below.

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

The valuations of the property portfolio as at 31st December, 2019 were conducted by CBRE Limited (“**CBRE**”), the principal valuer of Regal REIT appointed by the trustee of Regal REIT for a term of three years commencing from December 2018 pursuant to the provisions of the REIT Code.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31st December, 2019

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Profit/(Loss) for the year, before distributions to Unitholders		(2,102,262)	2,251,664
Other comprehensive income/(loss)			
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Gain/(loss) on revaluation of property	10	(86,337)	60,504
Income tax effect	16	<u>14,246</u>	<u>(9,983)</u>
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		<u>(72,091)</u>	<u>50,521</u>
Other comprehensive income/(loss) for the year, net of tax		<u>(72,091)</u>	<u>50,521</u>
Total comprehensive income/(loss) for the year, before distributions to Unitholders		<u><u>(2,174,353)</u></u>	<u><u>2,302,185</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

	Notes	2019 HK\$'000	2018 HK\$'000
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings		9,184,192	9,473,792
Lease liabilities		11,802	–
Deposits received		–	2,695
Deferred tax liabilities	16	619,258	600,303
Total non-current liabilities		9,815,252	10,076,790
Total liabilities, excluding net assets attributable to Unitholders			
		10,699,157	10,667,325
Net assets attributable to Unitholders			
		14,671,093	17,314,516
Number of Units in issue	14	3,257,431,189	3,257,431,189
Net asset value per Unit attributable to Unitholders	15	HK\$4.504	HK\$5.315

DISTRIBUTION STATEMENT

For the year ended 31st December, 2019

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

Notes:

- (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 for each financial year. The current policy of the REIT Manager is to distribute to Unitholders no less than 90% of Regal REIT's total distributable income for each financial year. The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. The REIT Manager on this basis made an interim distribution of HK\$0.068 per Unit for the six months ended 30th June, 2019, resulting in a total amount of interim distribution of HK\$221.5 million.
- (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 18th May, 2020 in respect of the final distribution for the period from 1st July, 2019 to 31st December, 2019. The final distribution will be paid out to Unitholders on or about 27th May, 2020. The total amount of final distribution to be paid to Unitholders of HK\$182.4 million is arrived at based on the final distribution per Unit of HK\$0.056 and the number of Units expected to be in issue at the Record Date that are entitled to distributions. The total amount of the distributions to Unitholders for the year, being the total of the interim distribution of HK\$221.5 million and the final distribution of HK\$182.4 million, amounted to HK\$403.9 million or 90.7% of the total distributable income for the year.
- (c) The final distribution of HK\$0.056 per Unit for the period from 1st July, 2019 to 31st December, 2019, involving an amount of HK\$182.4 million, was resolved and declared by the REIT Manager on 26th March, 2020. Accordingly, the distribution is not reflected as a distribution payable in the consolidated financial statements and will be reflected in the consolidated financial statements for the year ending 31st December, 2020. The final distribution for the period from 1st July, 2018 to 31st December, 2018 of HK\$247.6 million is included in the amount of distributions paid during the year as reported in the current year consolidated financial statements.
- (d) Amounts set aside by Regal REIT for the furniture, fixtures and equipment reserve with respect to the Initial Hotels, iclub Wan Chai Hotel, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel aggregated HK\$36.3 million (2018: HK\$44.8 million).

Notes:

1. GENERAL

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 were listed on The Stock Exchange of Hong Kong Limited on 30th March, 2007. Regal REIT is governed by a trust deed dated 11th December, 2006 (as amended by the first supplemental deed dated 2nd March, 2007, the second supplemental deed dated 15th May, 2008, the third supplemental deed dated 8th May, 2009, the fourth supplemental deed dated 23rd July, 2010, the fifth supplemental deed dated 3rd May, 2011, the sixth supplemental deed dated 21st July, 2011 and the seventh supplemental deed dated 14th April, 2015) constituting Regal REIT (the “**Trust Deed**”) and the REIT Code.

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

2. BASIS OF PREPARATION

The 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 and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements have been prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code. The consolidated financial statements have been prepared under the historical cost convention, except for property, plant and equipment and investment properties which have been measured at fair value. The consolidated financial statements are presented in Hong Kong dollars, the functional currency of Regal REIT, and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31st December, 2019, the Group’s current liabilities exceeded its current assets by HK\$666,442,000 (2018: HK\$311,694,000). The net current liabilities position was mainly due to the outstanding loan under the 2017 MTW Facility in the principal amount of HK\$748,000,000 which will be expiring in September 2020 and has been classified under current liabilities as at the end of the reporting period. Taking into account the current available banking facilities and the stable operating cash inflows generated from rental income, the REIT Manager considers the Group has adequate resources to meet its liabilities, commitments and funding requirements as and when they fall due within one year from the end of the reporting period. Accordingly, the REIT Manager continues to adopt the going concern basis in preparing the consolidated financial statements.

The basis of preparation and accounting policies adopted in the financial statements are consistent with those adopted in the Group's annual financial statements for the year ended 31st December, 2018 except for the adoption of the new and revised standards as disclosed in note 3 below.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Impact on transition

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

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

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

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

Financial impact at 1st January, 2019

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

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

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

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION

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

The operating segments of the Group for the year ended 31st December, 2019 are as follows:

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

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

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

Segment assets and liabilities

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

As at 31st December, 2019, the Group's segment assets, comprised of the aggregate fair values of the investment properties, property, plant and equipment and investment properties – right-of-use assets in the hotel properties segment and the mixed use property segment, amounted to HK\$24,324,787,000 (2018: HK\$26,773,000,000) and HK\$828,000,000 (2018: HK\$930,000,000), respectively.

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

Other segment information

	Year ended 31st December, 2019		
	Hotel	Mixed Use	Total
	Properties	Property	
	HK\$'000	HK\$'000	HK\$'000
Capital expenditures	<u>45,605</u>	<u>787</u>	<u>46,392</u>

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

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

Information about a major customer

For the year ended 31st December, 2019, revenue of HK\$941,479,000 (2018: HK\$976,456,000) was derived from the lease of the hotel properties to a single lessee which is a related company.

Geographical information

The Group's investment properties, property, plant and equipment and investment properties – right-of-use assets are all located in Hong Kong.

5. NET RENTAL AND HOTEL INCOME

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

Notes:

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

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

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

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

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

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

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

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

(e) Gross hotel revenue is recognised over time.

(f) Upon the adoption of HKFRS 16, the property operating expenses were reduced to HK\$3,224,000 as the lease payments of HK\$10,085,000 were not recognised in profit or loss for the current year.

6. REIT MANAGER FEES

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

For the financial year 2019, the REIT Manager elected to receive its Base Fees and Variable Fees in the form of cash.

7. FINANCE COSTS – EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

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

8. INCOME TAX

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

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

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

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

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

10. PROPERTY, PLANT AND EQUIPMENT

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

The Group's property, plant and equipment represents the value of land and building together with furniture, fixtures and equipment of iclub Wan Chai Hotel for the hotel portion. The REIT Manager has determined that the property, plant and equipment constitute a single class of asset (i.e. hotel property) based on the nature, characteristics and risks of the property. The property, plant and equipment was valued by CBRE, an independent property valuer and the principal valuer of Regal REIT, at HK\$614,000,000 as at 31st December, 2019 (2018: HK\$709,000,000). A revaluation deficit of HK\$86,337,000 (2018: surplus of HK\$60,504,000) resulting from the valuation as at 31st December, 2019 has been charged to other comprehensive loss (31st December, 2018: credited to other comprehensive income).

The carrying amount of the Group's property, plant and equipment would have been HK\$395,200,000 (2018: HK\$400,802,000) had such assets been stated in the consolidated financial statements at cost less accumulated depreciation.

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

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

The Group's investment properties were valued by CBRE at HK\$24,517,000,000 as at 31st December, 2019 (2018: HK\$26,994,000,000).

12. ACCOUNTS RECEIVABLE

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

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

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

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

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

13. ACCOUNTS PAYABLE

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

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

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

14. NUMBER OF UNITS IN ISSUE

	Number of Units	
	2019	2018
At beginning and end of the year	<u>3,257,431,189</u>	<u>3,257,431,189</u>

15. NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per Unit attributable to Unitholders is calculated by dividing the net assets attributable to Unitholders as at 31st December, 2019 of HK\$14,671,093,000 (2018: HK\$17,314,516,000) by the number of Units in issue of 3,257,431,189 (2018: 3,257,431,189) as at that date.

16. DEFERRED TAX

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

	Fair value adjustments arising from revaluation of property, plant and equipment HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
Gross deferred tax assets/(liabilities) at 1st January, 2018	(41,319)	(523,634)	14,659	(550,294)
Deferred tax charged to other comprehensive income during the year	(9,983)	–	–	(9,983)
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year	449	(37,175)	(3,300)	(40,026)
Gross deferred tax assets/(liabilities) at 31st December, 2018	<u>(50,853)</u>	<u>(560,809)</u>	<u>11,359</u>	<u>(600,303)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2019	(50,853)	(560,809)	11,359	(600,303)
Deferred tax credited to other comprehensive loss during the year	14,246	–	–	14,246
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year	<u>505</u>	<u>(32,641)</u>	<u>(1,065)</u>	<u>(33,201)</u>
Gross deferred tax assets/(liabilities) at 31st December, 2019	<u>(36,102)</u>	<u>(593,450)</u>	<u>10,294</u>	<u>(619,258)</u>

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

17. EVENT AFTER THE REPORTING PERIOD

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

EMPLOYEES

Regal REIT is managed by the REIT Manager and DB Trustees (Hong Kong) Limited as the trustee of Regal REIT. By contracting out such services, Regal REIT does not employ any staff in its own right.

NEW UNITS ISSUED

There were no new Units allotted and issued during the year.

BUY-BACK, SALE OR REDEMPTION OF UNITS

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

CORPORATE GOVERNANCE

The REIT Manager has adopted a compliance manual (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 the relevant regulations and legislation are adhered to.

During the year ended 31st December, 2019, Regal REIT and the REIT Manager have complied with the provisions of the Compliance Manual and, where applicable, the code provisions in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PUBLIC FLOAT

As at 31st December, 2019, 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 issued Units were held by independent public Unitholders.

REVIEW OF RESULTS

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed Regal REIT's consolidated financial statements for the year ended 31st December, 2019, including the accounting principles and practices adopted by Regal REIT, in conjunction with the external auditors of Regal REIT.

ISSUANCE OF ANNUAL REPORT

The Annual Report of Regal REIT for the year ended 31st December, 2019 is expected to be despatched to Unitholders on or about 9th April, 2020.

ANNUAL GENERAL MEETING

An Annual General Meeting of Regal REIT will be convened on Monday, 18th May, 2020. The Notice of the Annual General Meeting will be published and sent to the Unitholders, together with the 2019 Annual Report of Regal REIT, in due course.

By Order of the Board
Regal Portfolio Management Limited
(as manager of Regal Real Estate Investment Trust)
LO Yuk Sui
Chairman

Hong Kong, 26th March, 2020

As at the date of this announcement, the Board of Directors of the REIT Manager comprised Mr. LO Yuk Sui as Chairman and Non-executive Director; Miss LO Po Man as Vice Chairman and Non-executive Director; Mr. Johnny CHEN Sing Hung and Mr. Simon LAM Man Lim as Executive Directors; Mr. Donald FAN Tung, Mr. Jimmy LO Chun To and Mr. Kenneth NG Kwai Kai as Non-executive Directors; and Mr. John William CRAWFORD, JP, Mr. Bowen Joseph LEUNG Po Wing, GBS, JP, Mr. Kai Ole RINGENSON and Hon. Abraham SHEK Lai Him, GBS, JP as Independent Non-executive Directors.