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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



SUMMARY OF MARKET RENTAL PACKAGE OF INITIAL HOTEL PROPERTIES IN RESPECT OF THE 2025 FISCAL YEAR

Reference is made to the announcements dated 29 October 2010, 9 September 2011, 27 August 2012, 26 August 2013, 26 August 2014, 13 March 2015, 14 April 2015, 24 September 2015, 30 September 2016, 4 October 2017, 5 October 2018, 25 September 2019, 29 November 2019, 24 September 2020, 26 November 2020, 27 September 2021, 26 November 2021, 28 September 2022, 25 November 2022 and 12 September 2023 issued by Regal REIT. In accordance with the Lease Agreements, the Valuer was jointly appointed by the Lessors and the Lessee and was instructed to conduct a rent review to determine the Market Rental Package for 2025, which includes the amount of market rents (including Base Rent and Variable Rent), the Lessee's contribution to the FF&E Reserve for each of the Initial Hotel Properties, the amount of the Security Deposit and the manner of payment.

According to the 2025 Market Rental Package Determination, the aggregate amount payable by the Lessee as Base Rent is HK\$550 million for the 2025 Fiscal Year (an increase of HK\$6 million as compared with the Base Rent of HK\$544 million in the Market Rental Package for 2024). The individual Base Rents determined for the Initial Hotel Properties are equal to or higher than the respective minimum annual rental payments comprised within the aggregate annual Floor Rent of HK\$400 million provided in the Lease Agreements. In addition, the Variable Rent will continue to be based on the same sharing ratio of 50% of the Collective NPI Excess for the 2025 Fiscal Year. The Security Deposit comprised within the 2025 Market Rental Package Determination is HK\$137.5 million (as compared with the Security Deposit of HK\$136 million comprised in the Market Rental Package for 2024). Summaries of the 2025 Market Rental Package Determination and the valuation methodologies are set out in this announcement. The manner of payment of each component of the 2025 Market Rental Package Determination will be consistent with that set out in the 2024 Market Rental Package Determination. The existing Security Deposit will expire on 31 December 2024, and the replacement Security Deposit is to be procured and provided to the Lessors within 60 days after the determination of the Market Rental Package under the terms of the Lease Agreements. The replacement Security Deposit, in the form of replacement third party guarantee(s) (or standby letter(s) of credit or other equivalent form(s) of security), will be issued by licensed bank(s) in Hong Kong effective on 1 January 2025.

The Total Distributable Income (“**TDI**”) available for distribution to Unitholders and the distribution per Unit for each financial year are affected by various factors including, most importantly, the total rental and hotel income receivable by Regal REIT from all its hotel properties for such financial year. For the six months ended 30 June 2024, the prorated Base Rent derived from the Initial Hotel Properties amounted to HK\$272 million, which was approximately 77.64% of the total rental and hotel income of Regal REIT, and no Variable Rent was receivable for the period. Pursuant to the 2025 Market Rental Package Determination, there will be an increase of HK\$6 million in the Base Rent for the 2025 Fiscal Year as compared to that in the 2024 Market Rental Package Determination. However, the TDI may increase in the event that Variable Rent is received by the Lessors in the 2025 Fiscal Year. As at 30 June 2024, the valuation of the Initial Hotel Properties was HK\$18,623 million, representing 77.45% of the total valuation of HK\$24,046 million of Regal REIT’s properties portfolio.

Given the variables involved in the determination of the Base Rent and the Variable Rent from year to year, investors should exercise caution in dealing in the units of Regal REIT.

Pursuant to 5.2(f) of the REIT Code, the Valuer's report on the Market Rental Package for 2025 is available for inspection by the public during normal office hours at the REIT Manager's place of business at Unit No. 2001, 20th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.

The INEDs confirm that the rent review in respect of the 2025 Market Rental Package Determination has been conducted in accordance with the terms of the Lease Agreements.

A. BACKGROUND INFORMATION ON THE LEASE TERM AND RENTAL INCOME STRUCTURE

Reference is made to the announcements dated 29 October 2010, 9 September 2011, 27 August 2012, 26 August 2013, 26 August 2014, 13 March 2015, 14 April 2015, 24 September 2015, 30 September 2016, 4 October 2017, 5 October 2018, 25 September 2019, 29 November 2019, 24 September 2020, 26 November 2020, 27 September 2021, 26 November 2021, 28 September 2022, 25 November 2022 and 12 September 2023 issued by Regal REIT. Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings ascribed to them in the announcement dated 29 October 2010.

B. APPOINTMENT OF VALUER

In accordance with the Lease Agreements, Mr. Alnwick Chan was jointly appointed as an independent professional property valuer (the "**Valuer**") and was instructed on 27 June 2024 to conduct a rent review to determine the Market Rental Package in respect of the 2025 Fiscal Year for the Initial Hotel Properties (the "**Market Rental Package for 2025**"), based on the assumptions and disregards provided in the Lease Agreements. Mr. Chan was also jointly appointed as the Valuer to determine the market rental packages for the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the iclub To Kwa Wan Hotel for the 2025 Fiscal Year, which are all held by Regal REIT. Separate announcements on the determination of the market rental packages for these hotels for the 2025 Fiscal Year are made on this same date. Mr. Chan is a Chartered Surveyor with over 40 years' experience in the valuation of properties of similar magnitude and nature in Hong Kong, and is currently a managing director at Knight Frank Petty Limited.

Mr. Chan issued his report (the "**Report**") on the determination of the Market Rental Package for 2025 for the Initial Hotel Properties (the "**2025 Market Rental Package Determination**") on 24 September 2024.

C. THE 2025 MARKET RENTAL PACKAGE DETERMINATION

1. Summary of the 2025 Market Rental Package Determination

A summary of the 2025 Market Rental Package Determination, together with the corresponding components in respect of the Market Rental Package for 2024, are as follows:

Market Rental Package Component	Market Rental Package for 2025	Market Rental Package for 2024
(a) Base Rent for Regal Airport Hotel ⁽¹⁾	HK\$175 million	HK\$175 million
(b) Base Rent for Regal Hongkong Hotel ⁽¹⁾	HK\$92 million	HK\$90 million
(c) Base Rent for Regal Kowloon Hotel ⁽¹⁾	HK\$118 million	HK\$116 million
(d) Base Rent for Regal Oriental Hotel ⁽¹⁾	HK\$37 million	HK\$37 million
(e) Base Rent for Regal Riverside Hotel ⁽¹⁾	<u>HK\$128 million</u>	<u>HK\$126 million</u>
Aggregate amount payable by Lessee as Base Rent ^{(2) & (3)}	<u>HK\$550 million</u>	<u>HK\$544 million</u>
Variable Rent for the Initial Hotel Properties (receivable by the Relevant Lessors) ^{(3) & (4)}	50% of Collective NPI Excess	50% of Collective NPI Excess
Lessee's contribution to the FF&E Reserve ⁽⁵⁾	No contribution by the Lessee	No contribution by the Lessee
Amount of Security Deposit ⁽⁶⁾	HK\$137.5 million	HK\$136 million

Notes:

- (1) According to the Lease Agreements, during the Second Lease Period and the extended lease period commencing from 1 January 2016 to 27 December 2028 (for Regal Airport Hotel) and 31 December 2030 (for the other four Initial Hotel Properties) (the “**Extended Period**”), the Floor Rent will be HK\$400 million per annum, such amount being an aggregate of the respective minimum annual rental payments in respect of Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel, which are, respectively, HK\$175 million, HK\$60 million, HK\$65 million, HK\$30 million and HK\$70 million.
- (2) According to the Lease Agreements, during the Second Lease Period and the Extended Period, the Lessee will pay to the Lessors, on a monthly basis, the higher of one-twelfth of the Floor Rent of HK\$400 million and the monthly base rent comprised within the Market Rental Package Determination for the year, in such manner that the monthly lease income of the Lessors will not be less than one-twelfth of the Floor Rent.
- (3) The base rent of the Initial Hotel Properties comprised within the 2025 Market Rental Package Determination is HK\$550 million, being the aggregate of the base rents set out in the table above which, in each case, is equal to or higher than the respective minimum annual rental payments in respect of each of the Initial Hotel Properties as stated in Note (1). The aggregate amount payable by the Lessee as Base Rent for the 2025 Fiscal Year represents an increase of HK\$6 million as compared with the Base Rent of HK\$544 million for the 2024 Fiscal Year. The Variable Rent receivable for the 2025 Fiscal Year will continue to be based on the same 50% sharing of the Collective NPI Excess for the 2025 Fiscal Year.
- (4) For the six months ended 30 June 2024, as the NPI from hotel operations of the Initial Hotel Properties amounted to approximately HK\$164.9 million, which was below the prorated Base Rent amount of HK\$272 million, no Variable Rent was earned for the period.
- (5) According to the Lease Agreements, the Lessee was required to contribute monthly to the FF&E Reserve an amount equal to 2% of the Total Hotel Revenue for each Fiscal Year in the First Lease Period. According to the Report, as a general practice of the hotel industry in Hong Kong, the owner of the hotel (equivalent to the Lessor in each Lease Agreement) is responsible for contributing funds which are set aside and applied to meet the costs of investments in the replacement of furniture, fixtures and equipment at the relevant hotel premises, for the purposes of maintaining such premises at the applicable operating standards and operating capacity. The Valuer is, therefore, of the opinion that the obligation to contribute to the FF&E Reserve could be transferred from the Lessee to the Lessors based on local practice and, consistent with the 2024 Market Rental Package Determination, concluded in the 2025 Market Rental Package Determination that none of the Total Hotel Revenue shall be contributed by the Lessee to the FF&E Reserve for the 2025 Fiscal Year.

(6) Pursuant to the Lease Guarantees, Regal, as guarantor, procured the Initial Security Deposit in favour of the Lessors and the Trustee in the form of a letter of credit to cover its payment obligations and that of the Lessee for the period up to 30 June 2011. Regal has further undertaken that, unless the Lease Agreements are terminated, the same or other equivalent arrangement (the “**Security Deposit**”, as further described in paragraph C.2 of this announcement) shall, at the sole cost and expense of Regal, remain in place and effective until the end of the term of the Lease Agreements, upon the same terms as the Initial Security Deposit. In accordance with the amendments to Lease Guarantee, the Security Deposit for the Extended Period is to be at an amount equal to the highest of: (a) the amount which the Valuer determines to be the market rate for security deposit; (b) 25% of the annual base rent as determined by the Valuer upon each annual rent review; and (c) 25% of the Floor Rent. Regal is required, within 60 days after the determination of an annual rent review, to arrange for such bank guarantee to be topped up or adjusted or replaced to an amount equal to such resulting highest amount. According to the 2025 Market Rental Package Determination, the security deposit payable for renting an en bloc hotel of comparable scale to the Initial Hotel Properties is normally three months base rent, which is determined by the Valuer to be the market rate for security deposit. The Valuer therefore determined the security deposit shall be three months base rent, which in the case of the Initial Hotel Properties is HK\$137.5 million, equivalent to 25% of the determined annual base rent comprised within the 2025 Market Rental Package Determination, such amount being the highest of (a), (b) and (c).

2. Manner of Payment

The manner of payment of the Base Rent, Variable Rent, Security Deposit and the Lessee’s contribution to the FF&E Reserve according to the 2025 Market Rental Package Determination will be consistent with that set out in the 2024 Market Rental Package Determination. The existing Security Deposit will expire on 31 December 2024, and the replacement Security Deposit is to be procured and provided to the Lessors within 60 days after the determination of the Market Rental Package under the terms of the Lease Agreements. The replacement Security Deposit, in the form of replacement third party guarantee(s) (or standby letter(s) of credit or other equivalent form(s) of security), will be issued by licensed bank(s) in Hong Kong, effective on 1 January 2025.

D. PERFORMANCE OF INITIAL HOTEL PROPERTIES

The aggregate NPI derived from the Initial Hotel Properties for the six months ended 30 June 2024 amounted to approximately HK\$164.9 million (for the six months ended 30 June 2023: HK\$136.2 million), which was below the prorated Base Rent of HK\$272 million, no Variable Rent was receivable for the period. For the six months ended 30 June 2024, the average room rate for the Initial Hotel Properties was HK\$882.24 (representing an increase of 12.4% above the HK\$784.73 for the same period in 2023) while the average occupancy rate was 65.6%, as compared to 66.8% for the same period in 2023, reflecting an increase of 10.4% in the combined average RevPAR as compared to the same period in the 2023 Fiscal Year.

E. SUMMARY OF ASSUMPTIONS AND OUTLINE OF VALUATION METHODOLOGIES

1. Assumptions Contained in the 2025 Market Rental Package Determination

The 2025 Market Rental Package Determination was based on the assumptions and disregards set out in the Lease Agreements, including the following:

- (a) that the rental payable by the Lessee shall be exclusive of rates, government rent, utility charges and all other outgoings payable by the Lessee;
- (b) that each of the Initial Hotel Properties is available to let on the open market by a willing landlord to a willing tenant without a premium and with vacant possession having regard to similar premises having similar characteristics and attributes;
- (c) that the length of the lease would be in line with other leases in the market with similar nature;
- (d) that each of the Initial Hotel Properties is fit for immediate occupation and use and incorporates fixtures and fittings which are of a standard and description commensurate with the nature of the premises and which are suitable for the use and occupation of the willing tenant;
- (e) that in case any part of the Initial Hotel Properties has been damaged or destroyed, it has been fully restored;
- (f) that no reduction is to be made to take account of any inducements;
- (g) disregarding any effect on rent of the fact that the Lessee has been or is in occupation of the Initial Hotel Properties or any part thereof; and
- (h) disregarding any goodwill attributable to the Lessee's business carried on at the Initial Hotel Properties.

2. Outline of Valuation Methodologies

The Valuer adopted a reasonable percentage of gross revenue as his primary approach in his valuation to determine the Base Rent comprised within the 2025 Market Rental Package Determination. The Valuer also analysed similar sales transactions in Hong Kong to assess the market values of the Initial Hotel Properties, and the Base Rent was then derived from the adoption of what the Valuer determined to be appropriate yields on such market values. As the Valuer was of the view that rental transactions for hotels are rare in Hong Kong, rental transactions of upper commercial premises were also analysed as a cross-check and benchmark for the purposes of the 2025 Market Rental Package Determination. The Valuer, being appointed and instructed jointly by the Lessors and the Lessee to conduct the Market Rental Package for 2025, determined the Variable Rent for the 2025 Fiscal Year to be 50% of the Collective NPI Excess, which is a reasonable and fair proportion to both parties.

F. CONSIDERATIONS IN RESPECT OF THE MARKET RENTAL PACKAGE FOR 2025

1. General Market Conditions and Rental Review in respect of the Market Rental Package for 2025

The hotel business is cyclical and sensitive to changes in the global, regional or local economies generally; and since demand for hotel services in Hong Kong is affected by economic growth, a global, regional or local change could affect the overall performance of the local hotel industry.

According to a recent report released by the World Bank Group, the global economy is stabilising and, despite elevated financing costs and heightened geopolitical tensions, is projected to hold a steady growth of 2.6% this year. Based on the information published by the National Bureau of Statistics of China, the Gross Domestic Product (GDP) of China in the first half of 2024 was up by 5.0% year-on-year, with steady progress made in transformation and upgrading. However, faced with a complex external environment, the domestic consumption demand in China remains insufficient and the foundation for a sound economic recovery still needs to be strengthened. The Hong Kong economy continued to record moderate growth in the second quarter of 2024, with its real GDP having grown by 3.3% over the same quarter a year earlier, but its private consumption expenditure has turned to a slight decline.

Total visitors to Hong Kong in the first half of 2024 amounted to 21.2 million, representing an increase of 64.2% year-on-year, of which 16.1 million were visitors from Mainland China. Among all visitor arrivals, 49.8% were overnight visitors, with an average length of stay of 3.2 nights. Apart from the strong growth in Mainland visitors, there were also visible increases in the number of visitors from the traditional long haul, short haul as well as other new markets, as compared to the year before. However, despite these improvements, the number of total incoming visitors to Hong Kong in the first half of 2024 only represents about 60.7% of the peak level recorded in the first half of 2019. Therefore, more promotional efforts will be required from the Hong Kong Government and the tourism industry as a whole to restore full recovery.

According to the information published by the Hong Kong Tourism Board, the average hotel room occupancy level for all the surveyed hotels under different categories in Hong Kong for the half year ended 30 June was up from 80.0% in 2023 to 83.0% in 2024, while the average achieved room rate improved by 5.3%, resulting in an increment in the average Revenue per Available Room (RevPAR) of 9.2% year-on-year.

The individual Base Rents determined for the Initial Hotel Properties are equal to or higher than the respective minimum annual rental payments (as stated in Note (3) set out in paragraph C.1 above) provided in the Lease Agreements. The Base Rent and the Variable Rent for each of the Initial Hotel Properties comprised within the 2025 Market Rental Package Determination has been based on the Valuer's professional assessment on the market environment for 2025 (taking into account the assumptions and disregards set out in paragraph E.1 above) and other factors relating to each of the Initial Hotel Properties, and taking into consideration the current market conditions and outlook of the hotel and tourism industry in Hong Kong. The adopted mechanism of having a high proportion of Base Rent, plus potential upside sharing through Variable Rent in accordance with the Lease Agreements, provides assurance of a relatively stable rental income from the Initial Hotel Properties for Regal REIT for the 2025 Fiscal Year.

Based on the various factors and the hotel business conditions as mentioned above, there is an increase of 1.1% in the Base Rent determined for the 2025 Fiscal Year, as compared with the Base Rent of HK\$544 million for the 2024 Fiscal Year.

The Base Rents in respect of each of the Fiscal Years will be determined in accordance with an annual rent review by a jointly appointed independent professional property valuer and will be more reflective of the prevailing market conditions at the time each annual rental review is conducted.

2. Impact on Total Distributable Income and Distribution per Unit

The TDI available for distribution to Unitholders and the distribution per Unit for each financial year are affected by various factors including, most importantly, the total rental and hotel income receivable by Regal REIT from all its hotel properties for such financial year. For the six months ended 30 June 2024, the prorated Base Rent derived from the Initial Hotel Properties amounted to HK\$272 million, which was approximately 77.64% of the total rental and hotel income of Regal REIT, and no Variable Rent was receivable for the period. Pursuant to the 2025 Market Rental Package Determination, there will be an increase of HK\$6 million (equivalent to an increase of 1.1%) in the Base Rent for the 2025 Fiscal Year as compared to that in the 2024 Market Rental Package Determination. However, the TDI may increase in the event that Variable Rent is received by the Lessors in the 2025 Fiscal Year. As at 30 June 2024, the valuation of the Initial Hotel Properties was HK\$18,623 million, representing 77.45% of the total valuation of HK\$24,046 million of Regal REIT's properties portfolio.

Given the variables involved in the determination of the Base Rent and the Variable Rent from year to year, investors should exercise caution in dealing in the units of Regal REIT.

G. INSPECTION OF VALUER'S REPORT

Pursuant to 5.2(f) of the REIT Code, the Valuer's report on the Market Rental Package for 2025 is available for inspection by the public during normal office hours at the REIT Manager's place of business at Unit No. 2001, 20th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.

H. CONFIRMATION BY THE INEDs

The INEDs confirm the following:

- (a) the Board (with the approval of all of the INEDs) at the time of the IPO, had confirmed that the terms of the agreements/deed (including tenure of the Lease Agreements together with the Hotel Management Agreements) referred to in the section headed "Connected Party Transactions" of the Offering Circular were in line with normal business practices for contracts of the relevant type, and that for transactions which are to be entered into after the Listing Date, each such transaction shall be entered into in the ordinary and usual course of business of Regal REIT group, and on terms which are normal commercial terms and are fair and reasonable and in the interests of the Unitholders as a whole;

- (b) the Board (including all of the INEDs) (other than Mr. LO Yuk Sui, Miss LO Po Man, Mr. Jimmy LO Chun To, Mr. Kenneth NG Kwai Kai, Mr. Bowen Joseph LEUNG Po Wing, GBS, JP and Mr. Abraham SHEK Lai Him, GBS, JP, who were deemed to have interests in the Lease Agreements) further confirmed that the Lease Agreements continue to be conducted in the ordinary and usual course of business of Regal REIT and is consistent with the investment objectives and strategies of Regal REIT, and the terms of the Lease Agreements are at arm's length, on normal commercial terms and are fair and reasonable and in the best interests of Regal REIT and the Unitholders as a whole;
- (c) the appointment of Mr. Alnwick Chan as the independent professional property valuer for the 2025 Market Rental Package Determination has been reviewed, considered and endorsed by the Audit Committee of the REIT Manager; and
- (d) the rent review in respect of the 2025 Market Rental Package Determination has been conducted in accordance with the terms of the Lease Agreements.

A summary of the 2025 Market Rental Package Determination will be disclosed in the interim and annual reports of Regal REIT for the financial period ending 30 June 2025 and the financial year ending 31 December 2025, respectively.

This announcement is made pursuant to Chapter 10 of the REIT Code.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

- “Fiscal Year” means the period from 1 January to 31 December (both days inclusive) in each year and the last Fiscal Year shall be the period from 1 January in the last year of the term to the date of expiration or earlier determination of the term of the Lease Agreements (both days inclusive);
- “INEDs” means the independent non-executive directors of the REIT Manager;
- “IPO” means the initial public offering of the units of Regal REIT in Hong Kong;

“Lease Agreements”	means (a) Lease Agreement No. 1 for Regal Airport Hotel entered into between Bauhinia Hotels Limited and the Lessee; (b) Lease Agreement No. 2 for Regal Hongkong Hotel entered into between Cityability Limited and the Lessee; (c) Lease Agreement No. 3 for Regal Kowloon Hotel entered into between Ricobem Limited and the Lessee; (d) Lease Agreement No. 4 for Regal Oriental Hotel entered into between Gala Hotels Limited and the Lessee; and (e) Lease Agreement No. 5 for Regal Riverside Hotel entered into between Regal Riverside Hotel Limited and the Lessee, on 16 March 2007, as amended, supplemented and/or otherwise modified from time to time;
“Lessee”	means Favour Link International Limited, a wholly-owned subsidiary of Regal;
“Lessors”	means the respective direct owners of the Initial Hotel Properties (being (a) Bauhinia Hotels Limited, in relation to Regal Airport Hotel; (b) Cityability Limited, in relation to Regal Hongkong Hotel; (c) Ricobem Limited, in relation to Regal Kowloon Hotel; (d) Gala Hotels Limited, in relation to Regal Oriental Hotel; and (e) Regal Riverside Hotel Limited, in relation to Regal Riverside Hotel) and “Lessor” means any one of them;
“NPI Excess”	means NPI or Net Property Income (as defined in the Offering Circular) in excess of Base Rent in respect of each of the Initial Hotel Properties for any relevant period, and “Collective NPI Excess” means the aggregate of the NPI Excess of the Initial Hotel Properties for any relevant period, and any negative NPI shall also be taken into account; and

“Regal”

means Regal Hotels International Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 78).

By Order of the Board
Regal Portfolio Management Limited
(as manager of Regal Real Estate Investment Trust)
Simon LAM Man Lim
Executive Director

Hong Kong, 25 September 2024

As at the date of this announcement, the Board comprises 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. 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 Mr. Abraham SHEK Lai Him, GBS, JP as Independent Non-executive Directors.