



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)

Managed by



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

2017

ANNUAL REPORT



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CORPORATE INFORMATION

MANAGER OF REGAL REIT

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

BOARD OF DIRECTORS OF THE REIT MANAGER

Non-executive Directors

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

Executive Directors

Johnny Chen Sing Hung
Simon Lam Man Lim

Independent Non-executive Directors

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

AUDIT COMMITTEE OF THE REIT MANAGER

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

DISCLOSURE COMMITTEE OF THE REIT MANAGER

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

RESPONSIBLE OFFICERS OF THE REIT MANAGER

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

SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

TRUSTEE OF REGAL REIT

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

AUDITOR

Ernst & Young

PRINCIPAL VALUER

Colliers International (Hong Kong) Limited

PRINCIPAL BANKERS

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

LEGAL ADVISER

Baker & McKenzie

UNIT REGISTRAR

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

WEBSITE

www.RegalREIT.com



Chairman – Y.S. Lo

Dear Unitholders,

I am pleased to present, on behalf of the Board of Directors of Regal Portfolio Management Limited as the REIT Manager, the 2017 Annual Report of Regal Real Estate Investment Trust.

FINANCIAL RESULTS

For the year ended 31st December, 2017, Regal REIT recorded a consolidated profit before distributions to Unitholders of HK\$2,488.3 million, as compared to the profit of HK\$564.0 million for the financial year 2016. The consolidated profit recorded for 2017 included a fair value gain of HK\$2,044.2 million arising from the increase in the appraised values of Regal REIT's investment property portfolio, after offsetting the additional capital expenditures for the year, while for the financial year 2016, the corresponding fair value gain was only HK\$91.3 million. If the effects of the fair value changes are excluded, the core profit before distributions to Unitholders for the year under review would amount to HK\$444.1 million, as compared to HK\$472.7 million for the preceding year.

The total distributable income for the year under review amounted to HK\$473.0 million, which was 7.5% lower than the HK\$511.4 million reported in 2016. The reduction in the total distributable income was primarily due to the lower rentals received from the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel, as compared to the fixed rental levels for the first three years of their lease terms, which ended in February and July 2017, respectively. In this regard, it is worthwhile noting that the operating results of these two iclub Hotels have actually improved substantially during the year, as compared with those in 2016.

The Board of Directors of the REIT Manager has resolved to declare a final distribution of HK\$0.071 per Unit for the year ended 31st December, 2017 (2016: HK\$0.080). Together with the interim distribution of HK\$0.074 (2016: HK\$0.074) per Unit paid, this will bring the total distributions per Unit for 2017 to HK\$0.145 (2016: HK\$0.154). Total distributions for the year, including both the interim and final distributions, will amount to HK\$472.3 million and represent a payout ratio of 99.85% of the total distributable income for 2017.

HOTEL MARKET AND BUSINESS REVIEW

Based on a recent research by the World Bank Group, the growth in advanced economies strengthened in 2017, assisted by recoveries in capital spending and exports. The recoveries were markedly stronger than expected in the Euro Area and, to a lesser degree, in the United States and Japan. The growth in the Gross Domestic Product (GDP) in China reached 6.9% in 2017, which was higher than the previous forecast of 6.5% by some analysts, reflecting the positive effects of the continued fiscal support and economic reforms, as well as recoveries in exports and contribution from net trade. Hong Kong's economy also continued to grow, with its GDP for the year increased by 3.8% in real terms over 2016, above the forecast by the Hong Kong Government of 2 - 3% in early 2017.

In 2017, visitor arrivals to Hong Kong increased by 3.2% year-on-year to a total of 58.5 million, led by a rebound in the overall number of visitors from Mainland China. During the year, there was a total of 44.4 million visitors from Mainland China, of which 18.5 million were overnight visitors, which was an increase of 6.7% year-on-year. Meanwhile, business from the traditional long haul markets and other short haul markets (excluding Mainland China) remained steady. Total overnight visitors to Hong Kong in 2017 amounted to 27.9 million, representing an increase of 5.0% year-on-year. 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 in 2017 was 89.0%, an increase of 2.0 percentage points from 2016, while the industry-wide average room rate recorded an upward adjustment of 0.1%, resulting in a year-on-year increase of 2.3% in the Revenue per Available Room (RevPAR).

The five Initial Hotels, which are leased to a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL"), the immediate listed holding company of Regal REIT, have achieved positive improvements in their operating results. The combined average occupancy rate for the Initial Hotels in 2017 was 87.4%, as compared to 86.0% last year, while their combined average room rate increased by 4.8%, resulting in an enhancement of 6.5% year-on-year in terms of RevPAR, which outperformed the industry average.

The total net property income generated by the five Initial Hotels for the year amounted to HK\$807.3 million, which was 4.7% higher than the HK\$770.9 million in 2016. This represented an excess of HK\$74.3 million over the aggregate annual base rent of HK\$733.0 million for the year and 50% of such excess was attributable to Regal REIT as variable rent. For the year 2018, the aggregate annual base rent for the five Initial Hotels is HK\$751.0 million, which represents an increment of HK\$18.0 million as compared to 2017, with variable rent continuing to be based on 50% sharing of the excess of the aggregate net property income of the Initial Hotels over the aggregate base rent.

Apart from the five Initial Hotels under the “Regal” brand, Regal REIT is gradually building up a separate portfolio of iclub Hotels, a select-service hotel brand that is being developed by RHIHL group. Presently, there is a total of four iclub Hotels owned by Regal REIT and operating in Hong Kong. The first iclub Hotel was the iclub Wan Chai Hotel, which is self-operated by Regal REIT and also managed by a subsidiary of RHIHL. The iclub Wan Chai Hotel has always enjoyed very high occupancies and additional focus has been placed on yield enhancement. Although the year-round average occupancy of 95.3% maintained by this hotel in 2017 was slightly below the 98.5% attained in 2016, the average room rate has increased by 6.3%, with RevPAR consequently improving by 2.8% 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 the Initial Hotels. The first three years of the lease terms with escalating fixed annual rentals for the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel ended in February and July 2017, respectively. Their rental packages are now being determined annually by an independent professional property valuer. These two hotels generated aggregate rental receipts of HK\$117.6 million in 2017, which was a combination of fixed rentals as well as base rent and variable rent under the market rental packages. The aggregate rental receipts for the year were comparatively lower than the lease income of HK\$174.9 million received for 2016, as the lease income for the prior year was based on the higher levels of fixed rentals that were determined at a time when the hotel market in Hong Kong was buoyant. During the year under review, the operating performances of these two iclub Hotels have shown substantial improvement. Their combined annual average occupancy was 91.6%, 2.5 percentage points above the level in 2016, while their combined average room rate was enhanced by 5.9% year-on-year. Under the market rental reviews conducted for the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel, the base rents for 2018 have been determined to be HK\$42.0 million and HK\$42.4 million, respectively, with variable rent basing on 50% sharing of the excess of the net property income over the base rent.

As reported earlier, the independent Unitholders of Regal REIT approved at the extraordinary general meeting held on 20th July, 2017 the acquisition of the iclub Ma Tau Wai Hotel in Kowloon from P&R Holdings Limited, a joint venture 50-50 owned by each of RHIHL and Paliburg Holdings Limited, the listed holding company of RHIHL, at a consideration of HK\$1,360.0 million. Following satisfaction of the other conditions precedent, the transaction was duly completed in September 2017. The iclub Ma Tau Wai Hotel is a new hotel with 340 guestrooms which commenced business operations in May 2017 and is the fourth iclub Hotel owned by Regal REIT. The iclub Ma Tau Wai Hotel carries the benefit of a lease to the same RHIHL lessee for a term of five years with escalating fixed rentals at an average yield of 4.5% per annum which, in turn, assures Regal REIT with stable returns during the hotel’s start up period. The lease will be extendable at the option of Regal REIT up to 31st December, 2027, with rentals to be based on annual market rental reviews. Although still in its early stage of operation, this hotel has managed to attain satisfactory performance, with average occupancy in 2017, since its acquisition by Regal REIT in September, maintained at 88.1%.

Regal REIT has recently concluded in March 2018 a bilateral financing arrangement for a 5-year term loan in the principal amount of HK\$3.0 billion, which is principally secured by a mortgage over the Regal Kowloon Hotel. This term loan was arranged mainly for the purpose of financing the repayment of the two medium term notes due in March and May, respectively, this year. Based on the interest spread under the new term loan and the current Hong Kong Interbank Offered Rate (HIBOR), as compared to the coupon rates under the two medium term notes, it is expected there will be substantial savings on Regal REIT’s future financing costs.

BUSINESS OUTLOOK

For the first two months of 2018, the hotel market in Hong Kong continued to recover steadily but the overall external economic environment is still posing uncertainties, due to increased geopolitical tensions, volatilities in financial markets and the normalisation of interest rates as well as threats on free trade.

In Hong Kong, the two mega infrastructure projects, namely, the Hong Kong-Zhuhai-Macao Bridge and the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) are expected to be completed in 2018. The connectivity of these two projects will further enhance Hong Kong's position as a trade and logistics hub for goods and services from the Pearl River Delta region and will benefit different business sectors in Hong Kong, including tourism, finance and commerce. The location of the West Kowloon Station for the Express Rail Link is adjacent to the West Kowloon Cultural District, which will create synergies for world-class integrated arts and cultural events as well as tourism related activities. Meanwhile, the two major theme parks in Hong Kong, Ocean Park and Hong Kong Disneyland, are both embarking on expansion plans. With these favourable factors in the background, the REIT Manager is optimistic that the tourism and hotel markets in Hong Kong will continue to grow and Hong Kong will be able to maintain its position as a preferred tourist destination, for both business and leisure travellers alike.

Regal REIT currently owns a total of nine operating hotels, with an aggregate of 4,909 guestrooms and suites and is one of the major hotel owners in Hong Kong. The current portfolio of properties comprises a balanced mix of full-service hotels and select-service hotels, which are strategically positioned to cater to the different demands from a wide range of business and leisure customers. In addition to closely monitoring the performance of each property, the REIT Manager will continue to search for new acquisition opportunities that can generate accretive returns and long term capital appreciation. 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.

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

Lo Yuk Sui

Chairman

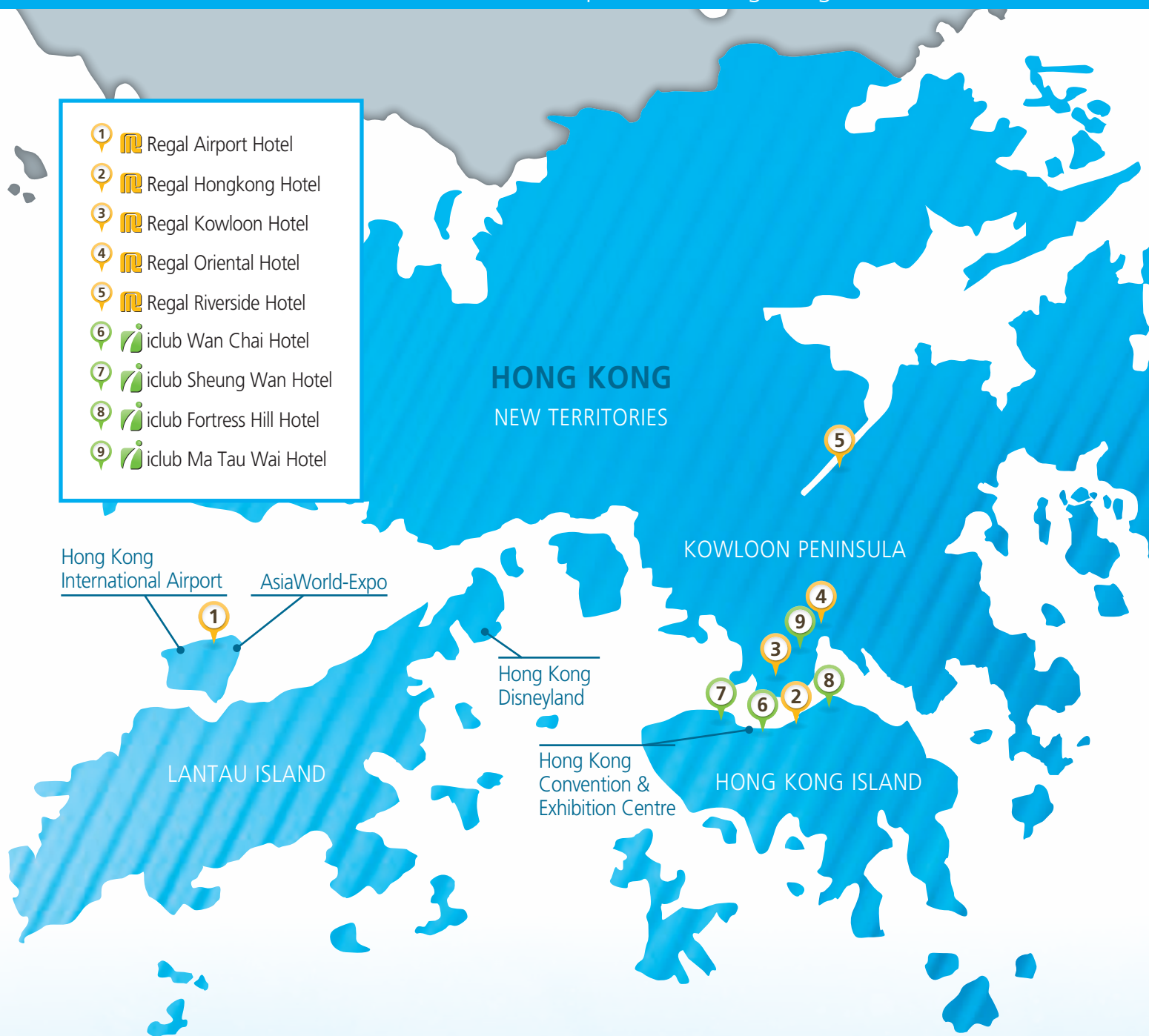
Regal Portfolio Management Limited

(as the REIT Manager of Regal REIT)

Hong Kong, 26th March, 2018

PROPERTY PORTFOLIO

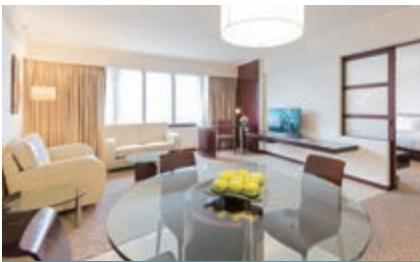
Location of the Hotel Properties in Hong Kong



Key to Hotel Facility Icons

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

REGAL AIRPORT HOTEL



Deluxe Suite




Executive Club Lounge



Café Aficionado

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

- 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 seventeen consecutive years (2001-2017)
- World's Best Airport Hotel by Business Traveller UK Magazine for ten consecutive years (2008-2017)
- World's Best Airport Hotel and Best Airport Hotel Asia in the Skytrax Awards for four consecutive years (2011-2014)
- World's Best Airport Hotel by Business Traveller US Magazine for two consecutive years (2013-2014)
- Travel Hall of Fame Award by TTG Asia Media Pte Ltd for three consecutive years (2015-2017)
- Best Airport Hotel in Asia-Pacific by TTG Asia Media Pte Ltd for ten consecutive years (2005-2014)
- Best Luxury Airport Hotel in the World Luxury Hotel Awards (2011, 2013-2015)
- Silver Benchmarking Certificate by EarthCheck (2014-2017)
- Certified with ISO 50001: 2011 Energy Management Systems EnMS (2014-2017)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014-2017)

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

REGAL HONGKONG HOTEL



Presidential Suite



Executive Club Lounge



Tiffany Lounge

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

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

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

REGAL KOWLOON HOTEL



Royal Suite



Executive Club Lounge



Regal Patisserie

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

- Conveniently located in Tsim Sha Tsui East, a commercial and tourist district
- Within walking distance from the Tsim Sha Tsui ("TST"), East TST and Hung Hom MTR stations, with easy access to other cities of Mainland China
- Close to TST's major shopping centres and entertainment areas
- Close to waterfront with promenade
- Close to popular tourist attractions including Hong Kong Science Museum, Hong Kong Space Museum, Hong Kong Museum of Art, Hong Kong Cultural Centre, Clock Tower and the Star Ferry, etc.
- Silver Benchmarking Certificate by EarthCheck (2014-2017)
- Certificate of Excellence by TripAdvisor (2016-2017)
- Gold Circle Award by agoda.com (2011, 2012, 2013, 2016 and 2017)
- CLP GREEN^{PLUS} Award 2017 - Merit Certificate by CLP Power Hong Kong Limited (2017)
- Travellers Recommended Hotel by eLong.com (2016)
- ISO22000: 2005 on Food Safety Management System by SGS Hong Kong (2014-2017)
- Hong Kong Green Organization by Environmental Protection Department (2015)
- Class of Excellence Wastewi\$e Label by Environmental Campaign Committee (2014-2015)
- Gold Award (Kowloon Area) in Rakuten Travel Award by Rakuten (2014)
- Outstanding Hotel Partner Award by booking.com (2014)

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

REGAL ORIENTAL HOTEL



Executive Suite



Lobby



The China Coast Pub + Restaurant

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

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

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

REGAL RIVERSIDE HOTEL



Deluxe Suite



Riverside Ballroom



L'EAU Restaurant

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

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

- Largest hotel in Shatin overlooking the Shing Mun River
- Easy access to Hong Kong Island, Kowloon and the Mainland Border
- Within walking proximity to Shatin New Town Plaza, a mega shopping complex featuring over 900 shops
- Close to Sha Tin Racecourse, Hong Kong Science & Technology Parks, The Chinese University of Hong Kong and the Ten Thousand Buddhas Monastery
- The spacious guestrooms on the Executive Club Floors are equipped with full amenities and modern facilities. In simple contemporary design, the Executive Club Lounge provides exclusive business services and meeting room that bring a truly comfortable and convenient stay
- 2009 East Asian Games Headquarters Hotel and 2008 Olympic Equestrian Events Official Hotel
- Silver Benchmarking Certificate by EarthCheck (2014-2017)
- Indoor Air Quality Certificate – Good Class by Environmental Protection Department (2017)
- Quality Water Supply Scheme For Buildings – Fresh Water (Plus) (Basic Plan) Certificate by Water Supplies Department (2017)
- Carbon Reduction Certificate by the Environmental Campaign Committee (2017)
- Regal Court awarded Bronze Award (Chinese Cuisine) in HKTB Outstanding QTS Merchant by Hong Kong Tourism Board (2017)
- Regal Terrace awarded Bronze Award (Chinese Cuisine) in HKTB Outstanding QTS Merchant by Hong Kong Tourism Board (2017)
- CLP GREEN^{PLUS} Award 2017 – Outstanding Certificate by CLP Power Hong Kong Limited (2017)
- Certificate of Appreciation in Hong Kong No Air-Con Night from Green Sense (2017)

iclub WAN CHAI HOTEL



iBusiness Deluxe



iLounge



iResidence Premier

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

- 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 and tea at iLounge
- Complimentary use of fitness equipment in Sweat Zone, opening 24/7
- Self-service laundry and drying facilities
- Sliver Benchmarking Certificate by EarthCheck (2018)
- Loved by Guests Award by Hotels.com (2017)
- Indoor Air Quality Certificate – Good Class by Environmental Protection Department (2017)
- Excellent Guest Review Score Award by Hotels.com (2016)
- CarbonCare Champion - CarbonCare Label by Carbon Care Asia (2011-2015)

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

iclub SHEUNG WAN HOTEL



iBusiness Premier



iBusiness



Sweat Zone

138 Bonham Strand,
Sheung Wan, Hong Kong.
Tel: (852) 3963 6100
Fax: (852) 3963 6122
Email: info@sheungwan.iclub-hotels.com
Website: 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, creating a refreshing and dynamic environment
- Offers discerning tech-savvy business and leisure travellers a relaxing lifestyle
- Complimentary WiFi access and coffee and tea at iLounge
- Complimentary use of fitness equipment in Sweat Zone, opening 24/7
- Self-service laundry and drying facilities
- Best Serviced Apartment Award by GoHome.com.hk (2017-2018)
- Silver Benchmarking Certificate by EarthCheck (2018)
- Loved by Guests Award by Hotels.com (2017)
- Guest Review Award by booking.com (2015-2017)
- Certificate of Excellence by TripAdvisor (2016-2017)
- ISO14064-1: 2006 by SGS Hong Kong (2016-2017)

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

iclub FORTRESS HILL HOTEL



iSelect



iLounge



Car Park

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



338



2014



9,400 sq.m.



6,849 sq.m.



1



1

- A contemporary select-service hotel opened in September 2014 with 338 chic and trendy guestrooms
- 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
- 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 with style and comfort
- Complimentary WiFi access and coffee and tea at iLounge
- Complimentary use of fitness equipment in Sweat Zone, opening 24/7
- Self-service laundry and drying facilities
- Silver Benchmarking Certificate by EarthCheck (2018)
- Indoor Air Quality Certificate - Good Class by Environmental Protection Department (2015-2017)
- Certificate of Excellence by TripAdvisor (2016)
- Business Hotel of the Year 2016 by GHM (Guangdong, Hong Kong, Macao) Hotel General Managers Society (2016)
- Best City Boutique Hotel of China of the 16th China Hotel Golden Horse Award (2016)

iclub MA TAU WAI HOTEL



iSelect Premier



iLounge



Lobby

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



340



2017



9,490 sq.m.



6,298 sq.m.



1



1

- A contemporary select-service hotel opened in 2017 with 340 chic and trendy guestrooms
- Centrally located in the To Kwa Wan area and in close proximity to Tsim Sha Tsui, Mong Kok, Jordan and Hung Hom districts
- Local art and cultural attractions such as Ko Shan Theatre, Tin Hau Temple - To Kwa Wan and Wonderful Worlds of Whampoa are located conveniently within walking distance
- 2-minute walk to reach the nearby bus and Cityflyer (Airport Bus) stations or a 15-minute walk to access to the Ho Man Tin MTR Station
- Offers free scheduled shuttle bus service to Airport Express Kowloon Station and Hung Hom Station
- Offers discerning tech-savvy business and leisure travellers a completely smoke-free environment with style and comfort
- With the innovative mobile key technology, guests will be given the options to use mobile for check-in service and access their guestrooms
- Complimentary WiFi access and coffee and tea at iLounge
- Self-service laundry and drying facilities
- Complimentary use of massage chair
- Complimentary use of table tennis facilities
- Indoor Air Quality Certificate – Good Class by Environmental Protection Department (2017)

The Directors of the REIT Manager herein present their report together with the audited consolidated financial statements of Regal Real Estate Investment Trust (“Regal REIT”) and its subsidiaries (collectively, the “Group”) for the year ended 31st December, 2017.

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, 2017, the property portfolio of Regal REIT was comprised of (a) Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the “Initial Hotels”); and (b) iclub Wan Chai Hotel, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel (collectively, the “iclub Hotels”).

The REIT Manager and the Trustee

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

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

The RHIHL Lessee and the Hotel Manager

The Initial Hotels are leased to Favour Link International Limited (the “RHIHL Lessee”), a wholly-owned subsidiary of Regal Hotels International Holdings Limited (“RHIHL”, together with its relevant subsidiaries, collectively, the “RHIHL Group”), with lease terms to expire on 31st December, 2020 under the relevant lease agreements and supplemental lease agreements (together, the “Initial Hotels Lease Agreements”).

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

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

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

On 4th September, 2017, Regal REIT completed the acquisition of iclub Ma Tau Wai Hotel, which is a new hotel located at No. 8 Ha Heung Road, Kowloon, Hong Kong, at a final total consideration of approximately HK\$1,361.3 million (the “MTW Transaction”). Upon completion of the MTW Transaction, the iclub Ma Tau Wai Hotel was leased to the RHIHL Lessee for hotel operations for a term of five years commencing on 4th September, 2017 under a new lease agreement (the “MTW Lease Agreement”), which is extendable at the option of Regal REIT for a further term to 31st December, 2027. The Hotel Manager was then appointed as the hotel manager of the iclub Ma Tau Wai Hotel under a new 10-year hotel management agreement (the “MTW Hotel Management Agreement”) commencing on 4th September, 2017. The new iclub Ma Tau Wai Hotel, comprising 22 storeys with 340 guestrooms, commenced business operations in May 2017.

HOTEL PORTFOLIO

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

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

RENTAL AND REVENUE STRUCTURE

Initial Hotels – Rental Revenue Derived from Hotel Operations

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

Specifically, total hotel revenue consists of the following:

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

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

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

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

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

Initial Hotels – Rental Structure and Market Rental Packages

Pursuant to the Initial Hotels Lease Agreements, for the years 2011 to 2020, the rental packages in respect of the Initial Hotels are determined on a yearly basis by a jointly appointed independent professional property valuer. The determinations include the amount of market rents (inclusive of the amount of base rent (the “Base Rent”) for each Initial Hotel, the variable rent (the “Variable Rent”) sharing percentage and the RHIHL Lessee’s contributions to the furniture, fixtures and equipment (the “FF&E”) reserve calculated as a percentage of total hotel revenue) to be applied for each of the Initial Hotels for the relevant respective years from 2011 to 2020, together with the amount of the security deposit required (collectively, the “IH Market Rental Package”). Regal REIT received rental income, comprised of Base Rent and Variable Rent, in respect of the Initial Hotels for the year 2017 from the RHIHL Lessee in accordance with the IH Market Rental Package for 2017.

Base Rent

For the year 2017, the aggregate Base Rent for the Initial Hotels was determined at HK\$733.0 million. Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis.

Variable Rent

Regal REIT received Variable Rent through the sharing of aggregate profits from the Initial Hotels’ operations over the Base Rent payments. According to the IH Market Rental Package for 2017, Regal REIT was entitled to Variable Rent based on 50% sharing of the excess of the aggregate net property income (“NPI”) over the aggregate Base Rent.

IH Market Rental Package for 2018

An independent professional property valuer, Mr. David Faulkner, was jointly appointed by the lessors and the RHIHL Lessee in June 2017 to conduct rent reviews for the Initial Hotels for 2018. According to the determination of the IH Market Rental Package for 2018, the aggregate amount payable by the RHIHL Lessee as Base Rent was determined to be HK\$751.0 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 2018. 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, 2018, for an aggregate amount of HK\$187.75 million, which is equivalent to three months' aggregate Base Rent of the Initial Hotels for 2018, issued by a licensed bank in Hong Kong. Details of the IH Market Rental Package for 2018 can be referred to in an announcement published by the REIT Manager on 4th October, 2017.

iclub Wan Chai Hotel – Revenue Structure

Hotel Portion

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

Non-hotel Portions

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

iclub Sheung Wan Hotel – Rental Structure and Market Rental Package

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

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

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

According to the determination of SW Market Rental Package for the period from 10th February, 2017 to 31st December, 2017 (the "SW 2017 Lease Year"), the pro-rated Base Rent to be payable by the RHIHL Lessee is HK\$36.5 million, with Variable Rent to be based on 50% of the excess of the NPI over the Base Rent. No FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessor. The RHIHL Lessee has provided a third party guarantee as a security deposit for an amount of HK\$10.541 million, which is equivalent to three months' Base Rent, rates and Government rent of the iclub Sheung Wan Hotel for the SW 2017 Lease Year.

SW Market Rental Package for 2018

The same independent professional property valuer, Mr. David Faulkner, was jointly appointed as the independent professional property valuer in June 2017 to determine the SW Market Rental Package for 2018. According to the determination of the SW Market Rental Package for 2018, the Base Rent to be payable by the RHIHL Lessee is HK\$42.0 million, with Variable Rent to be based on 50% of the excess of the NPI over the Base Rent. No FF&E reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessor.

The RHIHL Lessee is required to provide a third party guarantee as a security deposit, effective on 1st January, 2018, for an amount of HK\$10.775 million, which is equivalent to three months' Base Rent together with rates and Government rent of the iclub Sheung Wan Hotel for 2018. Details of the SW Market Rental Package for 2018 can be referred to in an announcement published by the REIT Manager on 4th October, 2017.

iclub Fortress Hill Hotel – Rental Structure and Market Rental Package

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

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

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

FH Market Rental Package for 2017/18

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

The RHIHL Lessee is required to provide a third party guarantee as a security deposit for the respective amounts of HK\$10.733 million (for the period from 28th July, 2017 to 31st December, 2017) and HK\$11.030 million (for the period from 1st January, 2018 to 31st December, 2018), both of which are equivalent to three months' Base Rent together with rates and Government rent of the iclub Fortress Hill Hotel for the respective two lease periods within the FH 2017/18 Lease Year. Details of the FH Market Rental Package for the FH 2017/18 Lease Year can be referred to in an announcement published by the REIT Manager on 5th May, 2017.

iclub Ma Tau Wai Hotel – Rental Structure

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

Regal REIT receives fixed rentals for the leasing of the iclub Ma Tau Wai Hotel commencing from 4th September, 2017 to 3rd September, 2022. Annual rental receipts for the initial five years of the lease term have been determined to be HK\$54.4 million, HK\$57.8 million, HK\$61.2 million, HK\$64.6 million and HK\$68.0 million, respectively. During the period from 4th September, 2017 to 31st December, 2017, Regal REIT earned pro-rated fixed rental income of HK\$19.9 million, recognised on the straight-line basis.

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

Furniture, Fixtures & Equipment Reserve

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

During the year, Regal REIT contributed amounts equal to 2% of the total hotel revenue (i.e. the total of room revenue, food and beverage revenue and/or other income of the hotel properties) for each month and, as a result, HK\$42.1 million was contributed to the FF&E reserve with corresponding expenditures of HK\$40.1 million being recorded for the purposes intended.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2017 are set out in the consolidated financial statements.

Review of the Economic Environment in 2017

As per the Global Economic Prospects report issued by the World Bank Group in January 2018, the global economy is experiencing a cyclical recovery, reflecting a rebound in investment, manufacturing activity, and trade. This improvement comes against the backdrop of benign global financing conditions, generally accommodative policies, rising confidence, and firming commodity prices. Global GDP growth is estimated to have picked up from 2.4% in 2016 to 3% in 2017. The upturn has been broad-based, with growth increasing in more than half of the world's economies¹.

In the U.S., growth picked up in 2017 to an estimated 2.3%, supported by strengthening private investment. The recovery reflected a diminished drag from capacity adjustments in the energy sector, rising profits, a weakening dollar, and robust external demand. For the Euro Area, growth gained substantial momentum in 2017, reaching an estimated 2.4% with broad-based improvements across member countries spurred by policy stimulus and strengthening global demand. In particular, private sector credit continued to respond to the stimulative stance of the European Central Bank, and both domestic demand and import growth were robust. Japan's growth also picked up in 2017 to an estimated 1.7%. Domestic demand firmed, supported by a gradual recovery in consumer spending and investment, as well as the implementation of a fiscal stimulus package. Exports accelerated in response to strengthening global demand, but the net trade contribution to growth remained unchanged as imports picked up as well¹.

Growth in China reached 6.9%² in 2017 and remains solid, with drivers of activity shifting away from state-led investment. China's trade flows recovered markedly in 2017. Tighter enforcement of capital flow management measures helped ease capital outflows and exchange rate pressures and reverse a reduction in foreign reserves. Despite further monetary and regulatory tightening in 2017, the total stock of non-financial sector debt, at about 260% of GDP, continued to expand on a year-on-year basis. Chinese growth is projected to edge down in 2018 to 6.4% as policies tighten, and average 6.3% in 2019-20. Key downside risks to the outlook stem from financial sector vulnerabilities, the possibility of increased protectionist policies in advanced economies, and rising geopolitical tensions. Long-term fundamental drivers of potential growth point to a further slowdown in China's growth over the next decade, as population aging is expected to depress labor supply¹.

¹ Source: Publications, World Bank Group, "Global Economic Prospects – Broad-Based Upturn, but for How Long?", January 2018.

² Source: Press Release, National Bureau of Statistics of China, "National Economy Maintained the Momentum of Stable and Sound Development and Exceeded the Expectation", 18th January, 2018.

For 2017 as a whole, Hong Kong's GDP increased by 3.8% in real terms over 2016. This was also markedly faster than the 2.9% growth trend over the preceding ten years (2007-2016)³. As per a research report from Bank of China (Hong Kong) Limited, the strong performance was attributable to a number of factors, namely better trade performance amid a synchronized recovery among major economies globally; the relatively low base of comparison in merchandise trade, tourism and retail sectors in 2016; the generally positive global economic sentiment and low interest rate environment, leading to strong equity and property market performances, together with financial and business services demand; and the robust private consumption performance driven by full employment conditions and positive consumer confidence in Hong Kong⁴.

Visitor Arrivals in Hong Kong, 2017 versus 2016⁵

Visitors to Hong Kong by Geographical Regions	2017 (Percentage of total visitors)	2017 (No. of visitors)	2016 (No. of visitors)	Variance (No. of visitors)	Variance (%)
Mainland China	76.0%	44,445,259	42,778,145	1,667,114	3.9%
South & Southeast Asia	6.2%	3,626,158	3,701,796	(75,638)	(2.0%)
North Asia	4.6%	2,717,680	2,484,696	232,984	9.4%
Taiwan	3.4%	2,010,755	2,011,428	(673)	—
Europe, Africa & the Middle East	3.8%	2,202,302	2,226,455	(24,153)	(1.1%)
The Americas	3.0%	1,781,819	1,773,338	8,481	0.5%
Australia, New Zealand & South Pacific	1.2%	687,127	684,046	3,081	0.5%
Macau SAR/Not identified	1.8%	1,001,057	994,999	6,058	0.6%
Totals	100.0%	58,472,157	56,654,903	1,817,254	3.2%
Overnight visitors included in above	47.7%	27,884,543	26,552,681	1,331,862	5.0%

Hong Kong's tourism market recovered in 2017 but remained competitive. The number of visitor arrivals increased by approximately 1.8 million, showing an increase of 3.2% year-on-year.

A major part of the Mainland China visitors were Shenzhen residents, who were mostly sameday visitors and, therefore, made no significant contribution to the local hotel market. Mainland China visitors increased and recorded a growth rate of 3.9%, with arrivals aggregating approximately 44.4 million, representing 76.0% of the total visitor arrivals to Hong Kong in 2017.

Arrivals from short haul markets comprising other Asian regions (including North Asia, South & Southeast Asia, Taiwan and Macau) were reported as 9.4 million and accounted for 16.0% of total arrivals, representing a growth rate of 1.8% as compared to 2016.

³ Source: Hong Kong Economic Reports, www.hkeconomy.gov.hk, "2017 Economic Background and 2018 Prospects", 28th February, 2018.

⁴ Source: Market Information, Bank of China (Hong Kong) Limited, "Hong Kong Economy: Maintaining stable and relatively fast growth in 2018", December 2017.

⁵ Source: Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Dec 2017", January 2018; "Visitor Arrival Statistics – Dec 2016", January 2017; the REIT Manager.

For the long haul markets, a negative growth rate of 0.3% was recorded, with total arrivals of approximately 4.7 million, reflecting a small downturn. Visitors from the Americas displayed a moderate increase with a growth rate of 0.5% and represented 3.0% of the total number of visitors. Overall, visitor arrivals from the European, Africa and the Middle East markets recorded a negative growth rate of 1.1%; with the visitor number reaching approximately 2.2 million and accounting for 3.8% of total arrivals.

Similar to other international gateway cities, in-bound visitor numbers drive the core lodging demand for the local hotel industry. Overnight visitors aggregated approximately 27.9 million, representing 47.7% of total arrivals and showing an increase of 5.0% year-on-year.

Review of Hotel Room Supply in Hong Kong in 2017 and Forecast for 2018

In 2017, the hotel room supply in Hong Kong reported growth of 5.4% over 2016. This represented an annual increase of 4,067 units from 74,868 to 78,935 rooms. During the year under review, 14 new hotel properties were opened and the number rose from 263 to 277, posting year-on-year growth of 5.3%. A continuing increase in the new room supply in 2018 with 29 new hotels is anticipated. Room supply is projected to increase by 6,328 units. By the end of 2018, it is projected that the hotel room supply will reach 85,263, for an increase of about 8.0% over the preceding year⁶.

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 (2017 versus 2016) ⁷					
	Room Occupancy Rates		Average Room Rates		RevPAR	
	2017	2016	2017	2016	2017	2016
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	86	84	2,068	2,161	1,778	1,815
High Tariff B	90	89	1,068	1,034	961	920
Medium Tariff	91	87	729	666	663	579
All Hotels	89	87	1,288	1,287	1,146	1,120

In 2017, the overall hotel occupancy rate reached 89.0% and was up by 2.0 percentage points when compared to 2016. The industry-wide average room rate recorded an increase of 0.1% year-on-year to HK\$1,288 per night. The resulting effect led to a growth of 2.3% on the industry-wide RevPAR or an increase of HK\$26 year-on-year to HK\$1,146.

⁶ Source: Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Dec 2017", February 2018; the REIT Manager.

⁷ Source: Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Dec 2017", January 2018; the REIT Manager.

Performance Highlights of Regal REIT

Regal REIT currently has an aggregate of 4,909 hotel guestrooms and suites in nine hotel properties, with a total gross floor area of approximately 236,763 square meters, that are strategically located in Hong Kong. The aggregate property valuation of Regal REIT's property portfolio amounted to HK\$25,792.0 million as at 31st December, 2017, representing an increase of HK\$3,570.0 million as compared to the valuation of HK\$22,222.0 million as at 31st December, 2016. The increase was largely attributable to the addition of the new iclub Ma Tau Wai Hotel and the fair value gains in the other eight property valuations. Overall, the occupancy rate of the property portfolio of Regal REIT was comparable to the average Hong Kong hotel market for 2017.

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 FY2017 versus FY2016 are set out below.

	FY2017 HK\$'million	FY2016 HK\$'million	Variance HK\$'million	Variance (%)
Operating Results				
Room revenue	1,265.0	1,191.4	73.6	6.2%
Food and beverage revenue	668.0	637.9	30.1	4.7%
Other income	34.0	35.1	(1.1)	(3.1%)
Total hotel revenue	1,967.0	1,864.4	102.6	5.5%
Operating expenses	(1,132.8)	(1,065.2)	(67.6)	(6.3%)
Gross operating profit	834.2	799.2	35.0	4.4%
Other expenses	(66.9)	(68.1)	1.2	1.8%
Net rental income	40.0	39.8	0.2	0.5%
Net property income	807.3	770.9	36.4	4.7%
Statistics				
Average room rate	HK\$1,021.29	HK\$974.38	HK\$46.91	4.8%
Occupancy rate	87.4%	86.0%	1.4%	1.6%
RevPAR	HK\$892.31	HK\$838.00	HK\$54.31	6.5%
Total available room nights	1,417,660	1,421,544	(3,884)	(0.3%)
Occupied room nights	1,238,633	1,222,584	16,049	1.3%

During the year under review, total hotel revenue of the Initial Hotels achieved HK\$1,967.0 million (2016: HK\$1,864.4 million), representing an increase of HK\$102.6 million or 5.5%. GOP and NPI attained HK\$834.2 million and HK\$807.3 million or increases of HK\$35.0 million and HK\$36.4 million, respectively, as compared to the preceding year.

The average occupancy rate of the Initial Hotels attained 87.4%, posting an increase of 1.4 percentage point as compared to the 86.0% recorded in the preceding year. Despite heavy market competition and other economic factors, the average daily room rate of the Initial Hotels still posted an increase of 4.8% to HK\$1,021.29 in 2017 from HK\$974.38 in 2016. As a result, the RevPAR of the Initial Hotels showed an increase of 6.5% from HK\$838.00 in 2016 to HK\$892.31 in 2017.

For 2017, the guest mix of the Initial Hotels was comprised mainly of 59% business travellers and 33% leisure travellers, with the business traveller proportion being higher than the 14% as reflected in the statistics published by the Hong Kong Tourism Board⁸. This proportion re-affirmed that the Initial Hotels continue to successfully attract business travellers to their full service commercial hotels in prime business locations. On the other hand, customer mix by origin recorded proportions of China, Asia and other regions of 40%, 44% and 16%, respectively.

Base Rent

According to the IH Market Rental Package for 2017, 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 aggregate Base Rent of HK\$733.0 million, representing a monthly Base Rent of HK\$61.1 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\$807.3 million, Regal REIT was entitled to a Variable Rent of HK\$37.1 million based on 50% sharing of the excess of the aggregate NPI over the aggregate Base Rent.

Performance of iclub Wan Chai Hotel

The iclub Wan Chai Hotel continued to display strong demand in 2017. The average room rate improved 6.3% from HK\$951.44 in 2016 to HK\$1,011.37 in 2017 for the hotel portion and the year-round occupancy rate achieved an average of 95.3% as compared to that of 98.5% for the previous year. Meanwhile, the non-hotel portions of the iclub Wan Chai Hotel, comprising the portion of the ground floor and other areas on the 27th to 29th floor of the premises, continued to being leased to tenants throughout the year.

Hotel portion

For the year ended 31st December, 2017, the hotel portion contributed gross hotel revenue of HK\$34.9 million and incurred operating costs and expenses to HK\$18.1 million.

Non-hotel portions

For the year ended 31st December, 2017, rental income of HK\$6.9 million was generated from the leasing of the non-hotel portions.

⁸ Source: Research, Hong Kong Tourism Board, "Visitors' Purpose of Visit by Major Market Areas", January 2018; the REIT Manager.

Performance of iclub Sheung Wan Hotel

The iclub Sheung Wan Hotel commenced hotel operations in June 2014 with its performance ramping up steadily. For 2017, the hotel achieved an overall occupancy rate of 93.7% with a year-round average room rate of approximately HK\$864. During the year under review, Regal REIT received (i) fixed rentals for the period from 1st January, 2017 to 9th February, 2017, 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; and (ii) pro-rated Base Rent and Variable Rent in accordance with the SW Market Rental Package for the SW 2017 Lease Year (from 10th February, 2017 to 31st December, 2017).

Regal REIT received cash rentals of HK\$9.5 million, while accounting rental income of HK\$9.1 million was recognised on the straight-line basis, for the period from 1st January, 2017 to 9th February, 2017, for the leasing of the iclub Sheung Wan Hotel. Thereafter, according to the determination of the SW Market Rental Package for the SW 2017 Lease Year, pro-rated Base Rent of HK\$36.5 million and Variable Rent of HK\$0.7 million, based on 50% sharing of the excess of the NPI over the Base Rent, were recognised.

Performance of iclub Fortress Hill Hotel

The iclub Fortress Hill Hotel commenced hotel operations in September 2014 with its performance ramping up steadily under tough market conditions. For 2017, the hotel achieved an overall occupancy rate of 90.1% with a year-round average room rate of approximately HK\$647. During the year under review, Regal REIT received (i) fixed rentals for the period from 1st January, 2017 to 27th July, 2017 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; and (ii) pro-rated Base Rent and Variable Rent in accordance with the FH Market Rental Package for FH 2017/18 Lease Year (from 28th July, 2017 to 31st December, 2017).

For the period from 1st January, 2017 to 27th July, 2017, Regal REIT received cash rentals of HK\$52.0 million, while accounting rental income of HK\$49.3 million was recognised on the straight-line basis, for the leasing of iclub Fortress Hill Hotel. Thereafter, pursuant to the FH Market Rental Package for the FH 2017/18 Lease Year, Regal REIT received pro-rated Base Rent of HK\$17.6 million, while a Variable Rent of HK\$1.3 million, based on 50% sharing of the excess of the NPI over the Base Rent, was recognised.

Performance of iclub Ma Tau Wai Hotel

The iclub Ma Tau Wai Hotel commenced hotel operations in May 2017 and its performance is considered satisfactory for a new start-up hotel. During the year, Regal REIT earned fixed rental income as pre-determined in accordance with the terms of the MTW Lease Agreement that took effect from the completion date of acquisition on 4th September, 2017.

During the period from 4th September, 2017 to 31st December, 2017, Regal REIT earned fixed rental income of HK\$19.9 million, recognised on the straight-line basis for the leasing of the iclub Ma Tau Wai Hotel.

Capital Addition Projects

Regal REIT undertakes, in addition to the FF&E reserve, the funding of capital addition projects with the objective of improving portfolio competitiveness and product offerings to enhance income generating capabilities, profitability of the hotel property portfolio and enable special utilisations. Other capital addition projects may also be conducted to comply with licensing requirements or to conform to legislation enactments and standards. Regal REIT continues to invest in capital addition projects as ongoing initiatives to upgrade the quality and standards of the rooms and facilities for its hotel properties. During the year, Regal REIT made capital commitments on major capital additions and completed renovation work for over 350 hotel rooms and other facilities and incurred capital expenditures of HK\$60.3 million.

Net Rental and Hotel Income

The aggregate net rental and hotel income for Regal REIT for the year ended 31st December, 2017 (as compared to the prior year) is set out below.

	2017		2016	
	HK\$'million	%	HK\$'million	%
Initial Hotels				
Base Rent	733.0	76.6	732.0	75.2
Variable Rent	37.1	3.9	19.4	2.0
Other income	11.4	1.2	11.3	1.2
iclub Sheung Wan Hotel				
Rental income	46.3	4.8	83.1	8.5
iclub Fortress Hill Hotel				
Rental income	68.2	7.1	86.8	8.9
iclub Ma Tau Wai Hotel				
Rental income	19.9	2.1	—	—
iclub Wan Chai Hotel				
Gross hotel revenue	34.9	3.6	34.0	3.5
Rental income	6.9	0.7	6.9	0.7
Gross rental and hotel income	957.7	100.0	973.5	100.0
Property operating expenses	(12.5)	(1.3)	(12.2)	(1.3)
Hotel operating expenses	(18.1)	(1.9)	(17.4)	(1.8)
Net rental and hotel income	927.1	96.8	943.9	96.9

During the year under review, net rental and hotel income represented 96.8% of the gross rental and hotel income, after the deduction of property and hotel operating expenses. The management services of the hotel properties are provided by the Hotel Manager under the relevant hotel management agreements with respect to the Initial Hotels, iclub Wan Chai Hotel, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel.

Valuation of the Property Portfolio

As at 31st December, 2017, Regal REIT's overall property portfolio was valued at HK\$25,792.0 million (31st December, 2016: HK\$22,222.0 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\$25,136.0 million; and (ii) the owner-operated hotel portion of iclub Wan Chai Hotel which is classified as property, plant and equipment for an amount of HK\$656.0 million.

Valuations of the properties as at 31st December, 2017 and 31st December, 2016 are tabulated below.

Property	Location	31 Dec 2017 Valuation HK\$ million	31 Dec 2016 Valuation HK\$ million	% Change
<i>Initial Hotels:</i>				
Regal Airport Hotel	Lantau Island	3,700	3,440	+7.6%
Regal Hongkong Hotel	HK Island	4,220	3,830	+10.2%
Regal Kowloon Hotel	Kowloon	5,650	5,150	+9.7%
Regal Oriental Hotel	Kowloon	1,890	1,730	+9.2%
Regal Riverside Hotel	New Territories	4,800	4,320	+11.1%
		20,260	18,470	+9.7%
<i>iclub Hotels:</i>				
iclub Wan Chai Hotel	HK Island	877	808	+8.5%
iclub Sheung Wan Hotel	HK Island	1,560	1,439	+8.4%
iclub Fortress Hill Hotel	HK Island	1,625	1,505	+8.0%
iclub Ma Tau Wai Hotel	Kowloon	1,470	N/A	N/A
Overall property portfolio		25,792	22,222	+16.1%

The valuations of the property portfolio as at 31st December, 2017 were conducted by Colliers International (Hong Kong) Limited ("Colliers"), the principal valuer of Regal REIT appointed by the Trustee for a term of three years commencing from December 2015 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 (2017 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. As at 31st December, 2017, Regal REIT had unsecured notes due in 2018 for an aggregate nominal principal amount of HK\$1,947.0 million and bank loan facilities of up to HK\$8,303.0 million with different maturity terms.

Regal REIT Medium Term Note Programme and Note Issuances

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, 2017, the outstanding notes issued in March 2013 and May 2013 had an aggregate nominal principal amount of HK\$1,947.0 million, with maturities in March 2018 and May 2018, respectively. Subsequent to the year under review, on 22nd March, 2018, Regal REIT repaid the first tranche of notes denominated in HK dollars, for a principal amount of HK\$775.0 million.

Loan Financing

As at 31st December, 2017, Regal REIT had loan facilities aggregating HK\$8,303.0 million, comprised of: (a) term and revolving loan facilities of up to HK\$5,500.0 million secured by four of the five Initial Hotels; (b) a term loan facility of HK\$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; (d) term and revolving loan facilities of up to HK\$825.0 million secured by the iclub Fortress Hill Hotel; and (e) a term loan facility of HK\$748.0 million secured by the iclub Ma Tau Wai Hotel.

Financing for the Initial Hotels

On 12th September, 2016, Regal REIT, through wholly-owned subsidiaries, entered into a new facility agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$1,000.0 million (the “2016 IH Facilities”), for a term of five years to September 2021. The 2016 IH Facilities are secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. The 2016 IH Facilities carry a Hong Kong Interbank Offered Rate (HIBOR)-based interest margin. As at 31st December, 2017, the 2016 IH Facilities had an outstanding term loan facility of HK\$4,500.0 million and a drawdown on the revolving loan facility of HK\$877.0 million.

Financing for iclub Wan Chai Hotel

The 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, secured by the iclub Wan Chai Hotel, and bearing a HIBOR-based interest margin throughout its term, was fully drawn down in December 2014. As at 31st December, 2017, the outstanding amount of the 2014 WC Facility was HK\$440.0 million, representing the full amount of the term loan facility.

Financing for iclub Sheung Wan Hotel

On 10th February, 2014, 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 “2014 SW Facilities”). The 2014 SW Facilities bear a HIBOR-based interest margin and have a term of five years to February 2019. As at 31st December, 2017, the utilised amount of the 2014 SW Facilities was HK\$632.0 million, representing the full amount of the term loan facility.

Financing for iclub Fortress Hill Hotel

Regal REIT, through a wholly-owned subsidiary, arranged another 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”) on 28th July, 2014. The 2014 FH Facilities bear a HIBOR-based interest margin and have a term of five years to July 2019. As at 31st December, 2017, the outstanding amount of the 2014 FH Facilities was HK\$660.0 million, representing the full amount of the term loan facility.

Financing for iclub Ma Tau Wai Hotel

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

Managing Fluctuations in Interest Rates

During the year under review, the low interest rate environment continued, with the actual 1-month HIBOR margin fluctuating within the range of about 0.35% per annum to 1.21% per annum. As at 31st December, 2017, the interest cost components in respect of the aggregate loan facilities are all subject to floating HIBOR-based interest rates. The REIT Manager is continuously monitoring the interest rate trends and assessing any need to contain or hedge the exposure of the finance costs and any impact that may arise from interest rate hikes.

Gearing and Cash

As at 31st December, 2017, the gearing ratio of Regal REIT was 37.8% (2016: 37.3%), being the gross amount of the outstanding debts and loans aggregating HK\$9,804.0 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\$1,947.0 million; (b) the 2016 IH Facilities of HK\$5,377.0 million; (c) the 2014 WC Facility of HK\$440.0 million; (d) the 2014 SW Facilities of HK\$632.0 million; (e) the 2014 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\$25,958.3 million. The gearing ratio is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of HK\$34.7 million in unrestricted and HK\$67.7 million in restricted cash balances and bank deposits, and unutilised revolving loan facilities of HK\$446.0 million as at 31st December, 2017. 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, 2017, eight of the nine Regal REIT’s properties, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel, Regal Riverside Hotel, iclub Wan Chai Hotel, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel, with an aggregate carrying value of HK\$20,142.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

Subsequent to the year under review, Regal REIT concluded in March 2018 a bilateral financing arrangement for a 5-year term loan in the principal amount of HK\$3,000.0 million, which is principally secured by a mortgage over the Regal Kowloon Hotel. This term loan was arranged mainly for the purpose of financing the repayment of the two medium term notes due in March and May, respectively, this year. This new term loan facility bears a HIBOR-based interest margin and has a term of five years to March 2023.

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 and the current policy of the REIT Manager is to comply with such requirement.

Distributions for 2017

The Board of Directors of the REIT Manager has resolved to declare a final distribution of HK\$0.071 per Unit for the period from 1st July, 2017 to 31st December, 2017. Together with the interim distribution of HK\$0.074 per Unit for the period from 1st January, 2017 to 30th June, 2017, total distributions per Unit for 2017 will amount to HK\$0.145, representing a yield of 6.04% based on the Unit closing price of HK\$2.40 on the last trading day of 2017. The final distribution of HK\$0.071 per Unit will be payable to Unitholders on the Register of Unitholders on 17th May, 2018.

Total Distributable Income for the year ended 31st December, 2017 was HK\$473.0 million. Total distributions for the year, including the interim distribution of HK\$241.0 million and the final distribution of HK\$231.3 million, will amount to HK\$472.3 million or 99.85% of the Total Distributable Income for the year.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Monday, 14th May, 2018 to Thursday, 17th May, 2018, 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 Friday, 11th May, 2018. The relevant distribution warrants are expected to be despatched on or about 29th May, 2018.

OUTLOOK FOR 2018

The International Monetary Fund (IMF) has reported it has a positive view on the 2018 global economic outlook. As per IMF's World Economic Outlook published in January 2018, global economic activity continues to firm up. Global output is estimated to have grown by 3.7% in 2017. The pickup in growth has been broad based, with notable upside surprises in Europe and Asia. Global growth forecasts for 2018 and 2019 have been revised upward by 0.2 percentage point to 3.9%. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes. However, the improved growth momentum means that fiscal policy should increasingly be designed with an eye on medium-term goals—ensuring fiscal sustainability and bolstering potential output. Multilateral cooperation remains vital for securing the global recovery⁹.

For 2017 as a whole, the Hong Kong economy grew by 3.8% which outpaced the 2.1% growth in 2016³. The unemployment rate (seasonally adjusted) of Hong Kong for the last quarter of 2017 was 2.9%¹⁰ which was the lowest recorded for the past twenty years. For 2018, Hong Kong's economic growth is expected to continue this trend in 2017. According to a report by Bank of China (Hong Kong) Limited, Hong Kong's economic outlook is positive, given the relatively fast recovery of the global economy. The World Trade Organization predicted that the global trade volume will increase 3.2% in 2018, roughly in line with the 3.6% growth in 2017 and notably better than the 1.3% increase in 2016. Nevertheless, the global economic performance is still somewhat weaker than the pre-crisis level. Moreover, although a full-fledged trade war between the major economies is not expected to happen, the rise in protectionism, Brexit negotiations, and the US formal investigation into the Mainland's intellectual property policies, etc. could all affect the pace of globalization and further liberalization. Together with the geopolitical uncertainties, such as the North Korea crisis, the global trade and economic performance might be negatively affected. Therefore, it is believed that external trade is likely to achieve only moderate growth in 2018⁴.

Based on the current trend, the Hong Kong economy is expected to maintain relatively fast growth in 2018. However, there are still a few uncertainties that may affect global and Hong Kong economies. Firstly, the geopolitical issues, such as the North Korea crisis, Catalonia independent movement, Brexit negotiations, the rise in protectionism, and terrorist activities, etc. will continue to threaten the financial markets and economic performances globally. While the Federal Reserve will continue to shrink its balance sheet and raise interest rates, some capital outflows from Hong Kong could not be ruled out. Interest rates in Hong Kong might then face more pressure to rise and, thereby, restrain the investment and asset market performances. Furthermore, Hong Kong property prices have also hit record high levels and any substantial corrections in the property market will, no doubt, have negative impacts on the Hong Kong economy. Even though the outlook for Hong Kong is positive for 2018, it should be well-prepared for any potential impacts from the abovementioned uncertainties⁴. As per the 2018-2019 Budget, Hong Kong's economic growth is expected to reach between 3-4% in 2018¹¹ which indicates that the current growth is sustainable.

⁹ Source: Publications, International Monetary Fund, "World Economic Outlook UPDATE – Brighter Prospects, Optimistic Markets, Challenges Ahead", 22nd January, 2018.

¹⁰ Source: Press Release, Census and Statistics Department, "Unemployment and underemployment statistics for October – December 2017", 18th January, 2018.

¹¹ Source: Budget Speech, The 2018-19 Budget, "Economic Prospects for 2018 and Medium-term Outlook", 28th February, 2018.

As per the 2017 Policy Address by the Chief Executive, Ms. Carrie Lam, there will be five new initiatives particularly focused on the “Tourism, Hotel, Retail and Catering” industries. These five initiatives will be enforced by the Commerce and Economic Development Bureau and they are: (a) develop high value-added tourism, eco-tourism, cultural, heritage and creative tourism, etc. so as to attract tourists with different interests to visit and spend in Hong Kong; and keep upgrading tourism supporting facilities, as well as strengthening manpower training, (b) assist the travel trade in grasping the opportunities brought by the Belt and Road Initiative and the development plans for a city cluster in the Guangdong-Hong Kong-Macao Bay Area, including launching “multi-destination” tourism products, to attract more overnight visitors to Hong Kong, (c) take note of the issues that affect tourism, including regulations, manpower supply and supporting infrastructure, and appreciate the demand of the industry for the establishment of a Tourism Bureau. Pending further deliberations on re-organising the government structure, the Financial Secretary convened a high-level tourism co-ordinating meeting to strengthen the co-operation and co-ordination among bureaux and departments for achieving synergy in promoting the holistic development of the tourism industry, (d) host various types of world-class events to attract tourists and provide more leisure activities to upgrade the quality of life of the general public. The Government will make proactive efforts to attract more mega events and activities to be held in Hong Kong and will serve as the facilitator and promoter to develop Hong Kong into a capital of international events, and (e) maintain and enhance Hong Kong’s role as a premier international convention, exhibition and sourcing centre¹².

For the tourism sector, the Hong Kong Government will formulate and implement relevant measures and initiatives to boost the further development of tourism. The government will adopt the following four development strategies, namely: (1) to develop a diversified portfolio of visitor source markets for Hong Kong, with an emphasis on attracting high-yield overnight visitors. For the medium and long term, the Hong Kong Government will discuss with the China National Tourism Administration and the tourism industry to continue to deepen tourism collaboration between the Mainland and Hong Kong; (2) to develop and explore tourism products and projects with local and international characteristics, including cultural tourism, heritage tourism, green tourism and creative tourism to enrich visitors experiences. In addition, the government will consolidate and enhance Hong Kong’s status as a travel destination for meetings, incentive travels, conventions and exhibitions (MICE) tourism and a regional cruise hub. The government will strive to attract different kinds of new and mega events to Hong Kong; (3) to promote smart tourism. Short and medium-term measures include improving Wi-Fi facilities in tourist hotspots, exploring ways to use smart technology to provide travel facilitation services for tourists at suitable attractions and border control points, such as sending messages to inbound tourists’ mobile phones to provide them with basic and useful tourist information and public transport information on different attractions for itinerary planning. The government will also encourage the industry to make good use of innovative technologies to enhance their competitiveness; and (4) to upgrade the service quality of our tourism industry and seek the Legislative Council’s early approval of the Travel Industry Bill to safeguard the rights of tourists. The government will also promote good business practices in the industry to maintain Hong Kong’s image as a tourist destination¹³. All the mentioned initiatives and development strategies are believed will have a significant positive impact in meeting the demands of an increasing number of global and regional visitors to Hong Kong.

¹² Source: Policy Agenda, The 2017 Policy Address, “Tourism, Hotel, Retail and Catering Industries”, 11th October, 2017.

¹³ Source: Policy Address, The 2017 Policy Address, “Tourism”, 11th October, 2017.

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 evaluate opportunities in target markets, while remaining committed to the set investment criteria.

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

MATERIAL ACQUISITIONS OR DISPOSALS OF REAL ESTATE

On 4th September, 2017, Regal REIT completed the acquisition of the new iclub Ma Tau Wai Hotel for a final total consideration of approximately HK\$1,361.3 million, comprised of the purchase price of HK\$1,360.0 million and a current assets adjustment of approximately HK\$1.3 million. The iclub Ma Tau Wai Hotel consists of 340 guestrooms and commenced business operations in May 2017.

Upon completion of the MTW Transaction on 4th September, 2017, the iclub Ma Tau Wai Hotel was leased to the RHIHL Lessee for use in hotel operations for five years ending on 3rd September, 2022 under a new lease agreement, which is extendable at the option of Regal REIT for a further term to 31st December, 2027. The Hotel Manager was then appointed as the hotel manager for the operation of the iclub Ma Tau Wai Hotel under a 10-year hotel management agreement commencing on 4th September, 2017.

Concurrently, a new 3-year term loan facility of HK\$748.0 million was granted by a syndicate of two banks under a facility agreement entered into by Land Crown International Limited (the direct holding company of the iclub Ma Tau Wai Hotel, which became a wholly-owned subsidiary of Regal REIT upon completion of the MTW Transaction on 4th September, 2017. This new facility bears a HIBOR-based interest margin. References can be made to the related circular to Unitholders dated 30th June, 2017 and the announcements dated 30th June, 2017, 20th July, 2017 and 4th September, 2017 published by the REIT Manager.

Save as disclosed herein, Regal REIT did not enter into any other real estate acquisition or disposal transactions during the year.

OTHER INVESTMENTS

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

BUY-BACK, SALE OR REDEMPTION OF UNITS

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

EMPLOYEES

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

MAJOR REAL ESTATE AGENTS

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

MAJOR CONTRACTORS

In 2017, 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	1,578	5.2%
Regal Hotels International Limited	Marketing fees	348	1.1%
Paliburg Estate Management Limited	Building management fees	589	1.9%
		<u>2,515</u>	<u>8.2%</u>

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The 2017 Environmental, Social and Governance Report of Regal REIT will be published as a separate report in due course.

ANNUAL GENERAL MEETING

The 2018 Annual General Meeting of Regal REIT will be convened on Thursday, 17th May, 2018. Relevant notice of the Meeting will be contained in the circular of Regal REIT relating to the general mandate to buy-back Units and the re-election of Independent Non-executive Directors to be sent to the Unitholders, together with the 2017 Annual Report.

SUBSEQUENT EVENT AFTER THE YEAR UNDER REVIEW

Subsequent to the year under review, Regal REIT concluded a bilateral loan arrangement in March 2018, with a bank for a new term loan facility of up to HK\$3,000.0 million, mainly for refinancing the notes under the MTN Programme maturing in March 2018 and May 2018, respectively. This new term loan facility, secured by the mortgage of the Regal Kowloon Hotel, bears a HIBOR-based interest margin and has a term of five years to March 2023. On 22nd March, 2018, Regal REIT repaid the first tranche of notes denominated in HK dollars, for a principal amount of HK\$775.0 million.

On behalf of the Board

Regal Portfolio Management Limited

(as the REIT Manager of Regal REIT)

Johnny Chen Sing Hung and Simon Lam Man Lim

Executive Directors

Hong Kong, 26th March, 2018

DIRECTOR AND EXECUTIVE OFFICER PROFILES

DIRECTOR PROFILES

Mr. Lo Yuk Sui, aged 73, 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 47 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 38, Vice Chairman and Non-executive Director – Miss Lo was appointed as a Non-executive Director of the REIT Manager in 2012 and elected as the Vice Chairman of the REIT Manager in 2013. She graduated from Duke University, North Carolina, U.S.A. with a Bachelor’s degree in psychology. She is currently an executive director and a vice chairman of CCIHL and Cosmopolitan, an executive director of PHL, and an executive director, a vice chairman and the managing director of RHIHL. Miss Lo oversees the sales and marketing functions of the RHIHL group and also undertakes responsibilities in the business development of the CCIHL group. Miss Lo is the daughter of Mr. Lo Yuk Sui and the sister of Mr. Jimmy Lo Chun To.

Mr. Johnny Chen Sing Hung, aged 50, Executive Director and Responsible Officer – Mr. Chen joined the REIT Manager as the Director – Asset Management and was appointed as an Executive Director in 2014. Mr. Chen is responsible for, among other things, overseeing and managing the asset management activities of Regal REIT and, jointly with Mr. Simon Lam Man Lim, for making disclosures and communications of Regal REIT to investors. Mr. Chen holds a Master of Business Administration degree, a Bachelor of Administrative Studies degree and a Bachelor of Arts degree (major in mathematics for commerce). He is a Fellow member of the Hong Kong Institute of Directors, a former member of the Chinese People’s Political Consultative Conference, Yuexiu District, Guangzhou City, China, and a member of Hong Kong Securities and Investment Institute. Mr. Chen has over 20 years of business development, trading, property investment, development and management experience. He is currently a non-executive director of Silver Base Group Holdings Limited, which is listed on the Hong Kong Stock Exchange. Prior to joining the REIT Manager, Mr. Chen was the Vice President - Business Development of Century City Holdings Limited, a subsidiary of CCIHL, from May 2013 to July 2014. Prior to that, he held various management and controller positions in different major Hong Kong companies and multinational corporations, including Faithful Trading (H.K.) Ltd, Gome Home Appliances (HK) Limited and Chevalier Group.

Mr. Simon Lam Man Lim, aged 61, 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 (the REIT manager of Link REIT), Johnson Electric, Motorola Asia Pacific Limited and Philips Electronics Group.

Mr. John William Crawford, JP, aged 75, Independent Non-executive Director – Mr. Crawford was appointed as an Independent Non-executive Director of the REIT Manager in 2006. He was one of the founders of Ernst & Young, Hong Kong office, and was vice-chairman of the firm when he retired at the end of 1997. During his 25 years in public practice, he was also the chairman of the audit division of Ernst & Young and was active in a number of large private and public company takeover and/or restructuring exercises. He has continued to undertake consultancy/advisory work in a private capacity since retirement, is active in the education sector and is the chairman of International Quality Education Limited. He also remains active in various community service areas such as having been a founding member of UNICEF Hong Kong Committee and the Hong Kong Institute of Directors. In 1997, he was appointed as a Justice of the Peace in Hong Kong. He currently acts as an independent non-executive director and the chairman of the audit and risk committee for both Melco Resorts & Entertainment Limited and Melco Resorts and Entertainment (Philippines) Corporation, which are listed on the NASDAQ and the Philippine Stock Exchange, respectively.

Mr. Donald Fan Tung, aged 61, Non-executive Director – Mr. Fan was appointed as a Non-executive Director of the REIT Manager in 2006. He is a qualified architect. He is currently an executive director of CCIHL, PHL and RHIHL. He is also the chief operating officer of PHL. He is in charge of the property development, architectural design and project management functions as well as overseeing the building construction business of the CCIHL group.

Mr. Bowen Joseph Leung Po Wing, GBS, JP, aged 68, Independent Non-executive Director – Mr. Leung was appointed as an Independent Non-executive Director of the REIT Manager in 2016. Mr. Leung previously served the Hong Kong Government for over 32 years until his retirement as the Director of the Office of the Government of the Hong Kong Special Administrative Region in Beijing (“Beijing Office”) in November 2005. He joined the Administrative Service in June 1973 and rose to the rank of Administrative Officer Staff Grade A1 in June 1996. During his service in the Administrative Service, Mr. Leung had served in various policy bureaux and departments. Senior positions held by Mr. Leung included: Deputy Secretary for District Administration (later retitled as Deputy Secretary for Home Affairs); Deputy Secretary for Planning, Environment and Lands; Private Secretary, Government House, Secretary for Planning, Environment and Lands and Director of the Beijing Office. Mr. Leung has extensive experience in corporate leadership and public administration. During his tenure as the Director of the Beijing Office, he made commendable efforts in promoting Hong Kong in the Mainland, as well as fostering closer links and co-operation between Hong Kong and the Mainland. Mr. Leung is an independent non-executive director and a member of the Audit Committee of Green Leader Holdings Group Limited, PHL and Quali-Smart Holdings Limited, all of which are companies listed on the Hong Kong Stock Exchange.

Mr. Jimmy Lo Chun To, aged 44, 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 63, 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 68, 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 72, Independent Non-executive Director – Mr. Shek was appointed as an Independent Non-executive Director of the REIT Manager in 2006. He holds a Bachelor of Arts degree from the University of Sydney. He is currently a member of the Legislative Council for the Hong Kong Special Administrative Region. He is also a member of the Court of The Hong Kong University of Science & Technology, a member of both of the Court and the Council of The University of Hong Kong, a non-executive director of the Mandatory Provident Fund Schemes Authority and a member of the advisory committee on corruption of the Independent Commission Against Corruption (ICAC). 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, Lifestyle 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 Everbright Grand China Assets Limited, Goldin Financial Holdings Limited, Hop Hing Group Holdings Limited, Lai Fung Holdings Limited and MTR Corporation Limited, which are listed on the Hong Kong Stock Exchange. He is an independent non-executive director and a member of the audit committee of Eagle Asset Management (CP) Limited which is the manager of Champion Real Estate Investment Trust, the units of which are listed on the Hong Kong Stock Exchange.

EXECUTIVE OFFICER PROFILES

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

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

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

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

AUTHORISATION STRUCTURE

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

The REIT Manager is licensed by the SFC under the SFO to conduct regulated activities related to asset management. During the year under review, Mr. Johnny Chen Sing Hung and Mr. Simon Lam Man Lim have acted as the Responsible Officers of the REIT Manager. On 8th May, 2017, Mr. Yip Yat Wa ceased to be the Responsible Officer of the REIT Manager. Mr. Wesley Chan Hiu Yeung was appointed as a Responsible Officer of the REIT Manager on 22nd January, 2018.

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

ROLES OF THE TRUSTEE AND THE REIT MANAGER

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

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

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

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

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 an Independent Non-executive Director is nine years. If such Independent Non-executive Director has served on the Board for more than nine years, his further appointment will be subject to a separate resolution to be approved by Unitholders.

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

Directors' Interests in Contracts

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

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

Conflicts of Interest

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

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

Independence of Independent Non-executive Directors

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

Change of Information of Directors

Subsequent to publication of the 2017 interim report of Regal REIT, the REIT Manager was informed of the following changes of Directors' information:

Name of Directors	Details of changes
Miss Lo Po Man	– Resigned as an independent non-executive director and a member of the remuneration committee and the nomination committee of Meitu, Inc., a company listed on the Hong Kong Stock Exchange, with effect from 22nd February, 2018.
Mr. John William Crawford, JP	– Resigned as an independent non-executive director of Entertainment Gaming Asia Inc. on 3rd July, 2017, then listed on the NASDAQ. – Appointed as the chairman of the audit and risk committee of Melco Resorts & Entertainment Limited, a company listed on the NASDAQ, with effect from 21st March, 2017.

- Hon. Abraham Shek Lai Him, GBS, JP
- Appointed as an independent non-executive director of Everbright Grand China Assets Limited, a company listed on the Hong Kong Stock Exchange, with effect from 16th January, 2018.
 - Resigned as an independent non-executive director of Midas International Holdings Limited, a company listed on the Hong Kong Stock Exchange, with effect from 26th January, 2018.

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.

Five full Board meetings of the REIT Manager and two general meetings of the Unitholders were held during the year ended 31st December, 2017 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	5/5
<i>Vice Chairman and Non-executive Director</i>		
Lo Po Man	2/2	5/5
<i>Executive Directors</i>		
Johnny Chen Sing Hung	2/2	5/5
Simon Lam Man Lim	2/2	5/5
<i>Non-executive Directors</i>		
Donald Fan Tung	2/2	5/5
Jimmy Lo Chun To	1/2	5/5
Kenneth Ng Kwai Kai	2/2	5/5
<i>Independent Non-executive Directors</i>		
John William Crawford, JP	2/2	5/5
Bowen Joseph Leung Po Wing, GBS, JP	2/2	5/5
Kai Ole Ringenson	2/2	5/5
Abraham Shek Lai Him, GBS, JP	1/2	4/5

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)

Bowen Joseph Leung Po Wing, GBS, JP

Kai Ole Ringenson

Abraham Shek Lai Him, GBS, JP

Non-executive Director

Kenneth Ng Kwai Kai

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

In addition to informal or ad hoc meetings and discussions, four formal Audit Committee meetings of the REIT Manager were held during the year ended 31st December, 2017 to consider and review, among other things, the 2016 final results, the 2017 interim results, internal audit reports, connected party transactions, risk management, annual budgets and forecasts and other compliance matters of Regal REIT. The attendance rates of the individual members were as follows:

Name of Audit Committee Members	Attendance/ No. of Meetings
John William Crawford, JP (Chairman of the Committee)	4/4
Bowen Joseph Leung Po Wing, GBS, JP	4/4
Kai Ole Ringenson	4/4
Abraham Shek Lai Him, GBS, JP	3/4
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, 2017 to consider and review, among other things, the 2016 final results announcement, the 2016 annual report, the 2017 interim results announcement, the 2017 interim report and other corporate disclosure issues of Regal REIT. The attendance rates of the individual members were as follows:

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

AUDITOR'S REMUNERATION

The remuneration to Messrs. Ernst & Young, the external auditor of Regal REIT, in respect of the audit and non-audit services rendered for the year ended 31st December, 2017 were HK\$1.8 million (2016: HK\$1.7 million) and HK\$0.9 million (2016: HK\$0.8 million), respectively. The non-audit services include interim review of the financial statements of the Group for the six months ended 30th June, 2017, report of factual findings on connected party transactions, and compliance and other services to the Group.

REPORTING AND TRANSPARENCY

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

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

UNITHOLDERS' RIGHTS

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

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

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

MATTERS TO BE DECIDED BY THE UNITHOLDERS BY SPECIAL RESOLUTION

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

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

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

ISSUE OF FURTHER UNITS POST-LISTING

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

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

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

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

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

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

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

Directors or the REIT Manager who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are designated transactions or connected party transactions under the REIT Code or notifiable transactions or connected transactions under the Listing Rules or any 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, 2017.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

PUBLIC FLOAT

As at 31st December, 2017, 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, 2017.

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 the 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 a 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.

AUTOMATIC EXCHANGE OF FINANCIAL ACCOUNT INFORMATION

In September 2014, Hong Kong indicated its support for implementing automatic exchange of financial account information (“AEOI”) on a reciprocal basis with appropriate partners with a view to commencing the first exchanges by the end of 2018, on condition that the Hong Kong Government could put in place necessary domestic legislation by 2017. The Hong Kong Government introduced an amendment bill in January 2016, which was passed by the Legislative Council (“LegCo”) on 22nd June, 2016. The Inland Revenue (Amendment) (No. 3) Ordinance 2016, which commenced operation on 30th June, 2016, put in place a legislative framework for Hong Kong to implement AEOI.

Under the AEOI standard, financial institutions (“FIs”) are required to identify financial accounts held by tax residents of reportable jurisdictions in accordance with due diligence procedures. Required information on these accounts has to be collected and furnished to the Inland Revenue Department of Hong Kong (“IRD”). Such information will be exchanged on an annual basis. With LegCo approval, FIs can start conducting the due diligence procedures to identify and collect information on the relevant financial accounts in 2017, and furnish the information to the IRD in 2018 for transmission to the AEOI partners concerned.

Regal REIT has registered as a FI with the IRD and will make the AEOI reporting in compliance with the related requirements before the stipulated deadline.

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, 2017, in conjunction with Regal REIT’s external auditor. This Annual Report was approved by the Board of the REIT Manager on 26th March, 2018.

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, 2017 in accordance with the Hong Kong Financial Reporting Standards, the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in the REIT Code.

The statement by the Regal REIT external auditor, Messrs. Ernst & Young, about their reporting responsibilities on the financial statements of Regal REIT for the year ended 31st December, 2017 is set out in the section “Independent Auditor’s Report” contained in this Annual Report.

CONNECTED PARTY TRANSACTIONS

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

- (i) the REIT Manager and the other companies or entities held or controlled by Regal Hotels International Holdings Limited ("RHIHL") (collectively, the "RHIHL Connected Persons Group");
- (ii) the companies and entities held or controlled by Paliburg Holdings Limited ("PHL") (collectively, the "PHL Connected Persons Group");
- (iii) the Trustee and companies within the same group or otherwise "associated" with the Trustee (collectively, the "Trustee Connected Persons Group"); and
- (iv) Colliers International (Hong Kong) Limited ("Colliers"), the 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 AND PHL CONNECTED PERSONS GROUP

(a) Sale and Purchase Agreement

On 29th June, 2017, Regal REIT, acting through the Trustee, entered into a sale and purchase agreement with P&R Holdings Limited ("P&R Holdings", a joint venture 50-50 owned by each of PHL and RHIHL and, therefore, being a member of the PHL Connected Persons Group and RHIHL Connected Persons Group), PHL, RHIHL and the REIT Manager. Pursuant to the sale and purchase agreement, the Trustee agreed to acquire 100% of the issued share capital and shareholder loans of Prosper Harvest Investments Limited (a wholly-owned subsidiary of P&R Holdings) which indirectly through its wholly-owned subsidiary Land Crown International Limited (the "iclub Ma Tau Wai Hotel – Property Company"), holds the new iclub Ma Tau Wai Hotel located at No. 8 Ha Heung Road, Kowloon, Hong Kong and such acquisition was completed on 4th September, 2017 at a final total consideration of approximately HK\$1,361.3 million (the "MTW Transaction"). On completion date of the MTW Transaction, the Trustee (on behalf of Regal REIT) and/or members of the Regal REIT Group entered into (i) the deed of tax indemnity; (ii) the new lease agreement; (iii) the new lease guarantee; and (iv) the new hotel management agreement, in respect of the iclub Ma Tau Wai Hotel with members of the RHIHL Connected Persons Group and/or PHL Connected Persons Group, all dated 4th September, 2017 and in the agreed form set out in the sale and purchase agreement. References can be made to the related announcements dated 30th June, 2017, 20th July, 2017 and 4th September, 2017 and the related circular to Unitholders dated 30th June, 2017, as published by the REIT Manager, for further details of the MTW Transaction.

(b) MTW Deed of Tax Indemnity

At the completion date of the MTW Transaction on 4th September, 2017, P&R Holdings, PHL, RHIHL, the Trustee (on behalf of Regal REIT), Prosper Harvest Investments Limited, Leading Brand Holdings Limited and the iclub Ma Tau Wai Hotel – Property Company entered into a deed of tax indemnity (the “MTW Deed of Tax Indemnity”) in favour of the Trustee, Prosper Harvest Investments Limited, Leading Brand Holdings Limited and the iclub Ma Tau Wai Hotel – Property Company. Pursuant to the MTW Deed of Tax Indemnity, P&R Holdings and PHL together with RHIHL as the guarantors (on a several basis in equal proportions between the guarantors) undertook and agreed with the respective beneficiaries that they will indemnify on demand the respective beneficiaries in respect of, among other things, any liabilities for taxation resulting from or by reference to any event occurring on or before completion of the MTW Transaction or in respect of any income, profits or gains earned, accrued or received by Prosper Harvest Investments Limited, Leading Brand Holdings Limited and/or the iclub Ma Tau Wai Hotel – Property Company on or before completion of the MTW Transaction. P&R Holdings, PHL and RHIHL are members of the PHL Connected Persons Group and/or the RHIHL Connected Persons Group and Prosper Harvest Investments Limited, Leading Brand Holdings Limited and the iclub Ma Tau Wai Hotel - Property Company are members of Regal REIT 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 and second supplemental lease agreement on 12th March, 2015). The RHIHL Lessee is a member of the RHIHL Connected Persons Group. The terms of all the Initial Hotel Lease Agreements were extended further five year to 31st December, 2020.

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\$781.5 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 with the Hotel Manager for a term of twenty years from 16th March, 2007. The RHIHL Lessee and the Hotel Manager are both members of the RHIHL Connected Persons Group.

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

(c) Initial Hotels Lease Guarantees

RHIHL, a member of the RHIHL Connected Persons Group, has guaranteed to pay all amounts from time to time owing or payable by the RHIHL Lessee to the Initial Hotel – Property Companies under the Initial Hotels Lease Agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs by entering into 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 the SW Lease Agreement in relation to the leasing of the iclub Sheung Wan Hotel with the RHIHL Lessee, a member of the RHIHL Connected Persons Group, on 10th February, 2014. Subsequent to the year under review, on 20th February, 2018, the iclub Sheung Wan Hotel – Property Company has entered into the first supplemental lease agreement in respect of iclub Sheung Wan Hotel with the RHIHL Lessee upon the request from the Lands Department of Hong Kong to vary the SW Lease Agreement to the effect that the RHIHL Lessee would release its leasehold interests in and surrender its possession of the surrendered premises (I.L. 66 S.G, M.L. 67 S.C ss.1, M.L 67 S.A ss.1 S.A, M.L. 67 S.B ss.1 S.A and M.L. 67 S.B ss.2) for road widening outside the hotel. The term of the SW Lease Agreement expires on 31st December, 2019, which is extendable at the option of Regal REIT for a further five years. 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 cash rental receipts under the SW Lease Agreement amounted to approximately HK\$46.7 million.

(g) SW Lease Guarantee

Pursuant to a lease guarantee entered into on 10th February, 2014 (the “SW Lease Guarantee”), RHIHL, a member of the RHIHL Connected Persons Group, has guaranteed: (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.

(h) SW Hotel Management Agreement

Regal REIT (via the iclub Sheung Wan Hotel – Property Company) entered into the SW Hotel Management Agreement with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of iclub Sheung Wan Hotel for a 10-year term commencing on 10th February, 2014. 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 the FH Lease Agreement in relation to the leasing of the iclub Fortress Hill Hotel with the RHIHL Lessee, a member of the RHIHL Connected Persons Group, on 28th July, 2014. The term of the FH Lease Agreement expires on 31st December, 2019, which is extendable at the option of Regal REIT for a further five years. 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 cash rental receipts under the FH Lease Agreement amounted to approximately HK\$70.9 million.

(j) FH Lease Guarantee

Pursuant to a lease guarantee entered into on 28th July, 2014 (the “FH Lease Guarantee”), RHIHL, a member of the RHIHL Connected Persons Group, has guaranteed: (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.

(k) FH Hotel Management Agreement

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

(l) Tenancy Agreement

On 19th January, 2017, Regal REIT (via the iclub Wan Chai Hotel – Property Company), as landlord, entered into a tenancy agreement with Cheerview Limited, a member of the RHIHL Connected Persons Group, as tenant (the “RHIHL Tenant”), for the leasing of Shop Nos. A and B, G/F., No. 211 Johnston Road, Wanchai, Hong Kong, which is part of the iclub Wan Chai Hotel, for a 3-year term commencing on 20th January, 2017 (the “Tenancy Agreement”) at a rental of HK\$140,000 per calendar month, exclusive of air-conditioning charges, management fees, government rates and other outgoing expenses, payable monthly in advance, with a rent-free period of 2 months from 20th January, 2017 to 19th March, 2017. Pursuant to the terms of the Tenancy Agreement, the RHIHL Tenant shall be entitled to an option to renew the Tenancy Agreement for a further three years from the date of expiry of the Tenancy Agreement at a market rent to be determined by the principal valuer of Regal REIT. Reference can be made to the related announcement dated 20th January, 2017 published by the REIT Manager for further details of the Tenancy Agreement.

During the year, total contractual lease income under the Tenancy Agreement amounted to HK\$1.5 million.

(m) MTW Lease Agreement

The iclub Ma Tau Wai Hotel – Property Company entered into the MTW Lease Agreement in relation to the leasing of the iclub Ma Tau Wai Hotel with the RHIHL Lessee, a member of the RHIHL Connected Persons Group, on 4th September, 2017. The term of the MTW Lease Agreement expires on 3rd September, 2022, which is extendable at the option of Regal REIT for a further term to 31st December, 2027. Under the terms of the MTW Lease Agreement, the RHIHL Lessee makes lease payments to the iclub Ma Tau Wai Hotel – Property Company and is entitled to operate and manage the iclub Ma Tau Wai Hotel owned by the iclub Ma Tau Wai Hotel – Property Company and, accordingly, all income received from the iclub Ma Tau Wai Hotel shall, during the term of the MTW Lease Agreement, be retained by the RHIHL Lessee.

During the period from the commencement date of the MTW Lease Agreement on 4th September, 2017 to 31st December, 2017, the total contractual cash rental income under the MTW Lease Agreement amounted to approximately HK\$17.7 million.

(n) MTW Lease Guarantee

Pursuant to a lease guarantee entered into on 4th September, 2017 (the “MTW Lease Guarantee”), RHIHL, a member of the RHIHL Connected Person Group, has guaranteed: (a) the RHIHL Lessee’s obligations to pay to the iclub Ma Tau Wai Hotel – Property Company and the Trustee, on demand by the iclub Ma Tau Wai 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 Ma Tau Wai Hotel – Property Company under the MTW Lease Agreement; and (b) the due observance and performance of all terms, conditions, covenants, agreements and obligations contained in the MTW Lease Agreement, and on the part of the RHIHL Lessee, to be observed and performed.

(o) MTW Hotel Management Agreement

On 4th September, 2017, Regal REIT (via the iclub Ma Tau Wai Hotel – Property Company) entered into the MTW Hotel Management Agreement with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of iclub Ma Tau Wai Hotel for a 10-year term commencing on 4th September, 2017. The Hotel Manager is engaged to act as the exclusive operator and manager of the iclub Ma Tau Wai Hotel to supervise, direct and control the management, operation and promotion of the business of the iclub Ma Tau Wai Hotel during the operating term of the MTW 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\$119.9 million for such services rendered during the year were settled and/or are to be settled pursuant to the provisions of the Trust Deed.

Waivers from Strict Compliance

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

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

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

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

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

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

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

TRUSTEE CONNECTED PERSONS GROUP

Corporate Finance Transactions

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

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

Trustee Fees

DB Trustees (Hong Kong) Limited, a member of the Trustee Connected Persons Group, was appointed as the Trustee of Regal REIT. Trustee fees aggregating approximately HK\$3.9 million were recorded during the year for services rendered in this capacity.

Waiver from Strict Compliance

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

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

VALUER CONNECTED PERSONS GROUP

Colliers, a member of the Valuer Connected Persons Group, was appointed as the principal valuer of Regal REIT. During the year, an amount of HK\$1.1 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 PHL 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, 2017, 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, 2017 ^(x)
Century City International Holdings Limited ("CCIHL")	2,443,033,102 (Note i)	74.99%
Century City BVI Holdings Limited ("CCBVI")	2,443,033,102 (Notes i & ii)	74.99%
Paliburg Holdings Limited ("PHL")	2,440,346,102 (Notes iii & iv)	74.92%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,440,346,102 (Notes iii & v)	74.92%
Regal Hotels International Holdings Limited ("RHIHL")	2,439,613,739 (Notes vi & vii)	74.89%
Regal International (BVI) Holdings Limited ("RBVI")	2,439,613,739 (Notes vi & viii)	74.89%
Complete Success Investments Limited	1,817,012,072 (Note ix)	55.78%
Great Prestige Investments Limited	373,134,326 (Note ix)	11.45%

Notes:

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

- (iv) PHL is a listed subsidiary of CCBVI, which held an approximately 62.28% shareholding interest in PHL as at 31st December, 2017, and its interests in Units are deemed to be the same interests held by CCBVI.
- (v) PDBVI is a wholly-owned subsidiary of PHL and its interests in Units are deemed to be the same interests held by PHL.
- (vi) The interests in 2,439,613,739 Units held by each of RHIHL and RBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI and Cosmopolitan, respectively.
- (vii) RHIHL is a listed subsidiary of PDBVI, which held an approximately 69.25% shareholding interest in RHIHL as at 31st December, 2017, 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, 2017.

Save as disclosed herein, there were no other persons who, as at 31st December, 2017, 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, 2017, 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, 2017 ⁽ⁱⁱⁱ⁾
LO Yuk Sui	2,443,033,102 (Note i)	74.99%
Regal Portfolio Management Limited	120,381,598 (Note ii)	3.70%

Notes:

- (i) The interests in 2,443,033,102 Units were the same parcel of Units held through CCIHL in which Mr. Lo Yuk Sui held approximately 58.67% shareholding interest as at 31st December, 2017.
- (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, 2017.

Save as disclosed herein, as at 31st December, 2017, 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, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
REVENUE			
Gross rental revenue	5	922,927	939,521
Gross hotel revenue	5	34,846	33,958
		<u>957,773</u>	<u>973,479</u>
Property and hotel operating expenses		<u>(30,632)</u>	<u>(29,592)</u>
Net rental and hotel income	5	927,141	943,887
Interest and other income	6	110	190
Depreciation	12	(8,567)	(8,139)
Fair value changes on investment properties	13	2,044,180	91,252
REIT Manager fees	7	(119,870)	(96,149)
Trust, professional and other expenses	8	(24,377)	(10,710)
Finance costs – excluding distributions to Unitholders	9	<u>(224,102)</u>	<u>(235,637)</u>
PROFIT BEFORE TAX AND DISTRIBUTIONS TO UNITHOLDERS		2,594,515	684,694
Income tax expense	10	<u>(106,190)</u>	<u>(120,714)</u>
PROFIT FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		2,488,325	563,980
Finance costs – distributions to Unitholders		<u>(501,644)</u>	<u>(501,644)</u>
PROFIT FOR THE YEAR, AFTER DISTRIBUTIONS TO UNITHOLDERS		<u>1,986,681</u>	<u>62,336</u>
EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	11	<u>HK\$0.764</u>	<u>HK\$0.173</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
PROFIT FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		2,488,325	563,980
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gain on revaluation of property	12	71,896	5,292
Income tax effect	21	(11,863)	(873)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		60,033	4,419
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		60,033	4,419
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		2,548,358	568,399

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Property, plant and equipment	12	656,000	590,000
Investment properties	13	25,136,000	21,632,000
Total non-current assets		25,792,000	22,222,000
Current assets			
Accounts receivable	14	41,714	23,678
Prepayments and deposits	15	5,960	4,870
Due from related companies	28(b)	4,599	4,597
Tax recoverable		11,640	185
Restricted cash	16	67,661	63,489
Cash and cash equivalents	17	34,731	58,515
Total current assets		166,305	155,334
Total assets		25,958,305	22,377,334
Current liabilities			
Accounts payable	18	99,449	62,180
Deposits received		965	1,860
Due to related companies	28(b)	10,723	1,255
Other payables and accruals		52,381	49,549
Interest-bearing bank borrowings	19	877,000	170,000
Other borrowings	20	1,945,768	—
Tax payable		3,769	45,507
Total current liabilities		2,990,055	330,351
Net current liabilities		(2,823,750)	(175,017)
Total assets less current liabilities		22,968,250	22,046,983

	Notes	2017 HK\$'000	2016 HK\$'000
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	19	6,930,603	6,170,746
Other borrowings	20	—	1,933,339
Deposits received		2,695	2,235
Deferred tax liabilities	21	550,294	502,719
Total non-current liabilities		7,483,592	8,609,039
Total liabilities, excluding net assets attributable to Unitholders			
		10,473,647	8,939,390
Net assets attributable to Unitholders			
		15,484,658	13,437,944
Number of Units in issue			
	22	3,257,431,189	3,257,431,189
Net asset value per Unit attributable to Unitholders			
	23	HK\$4.754	HK\$4.125

The consolidated financial statements on pages 66 to 111 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 26th March, 2018 and were signed on its behalf by:

SIMON LAM MAN LIM
Executive Director

LO YUK SUI
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31st December, 2017

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

For the year ended 31st December, 2016

	Units HK\$'000	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets as at 1st January, 2016	8,432,356	15,876	148,235	4,774,722	13,371,189
Profit for the year	—	—	—	563,980	563,980
Other comprehensive income for the year:					
Gain on revaluation of property, net of tax	—	—	4,419	—	4,419
Total comprehensive income for the year, before distributions to Unitholders	—	—	4,419	563,980	568,399
Transfer of depreciation on hotel property	—	—	(1,688)	1,688	—
Finance costs – distributions to Unitholders	—	—	—	(501,644)	(501,644)
Net assets as at 31st December, 2016	8,432,356	15,876	150,966	4,838,746	13,437,944

DISTRIBUTION STATEMENT

For the year ended 31st December, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Profit for the year, before distributions to Unitholders		2,488,325	563,980
Adjustments:			
Difference in accounting rental income and contractual cash rental income		788	5,048
Amounts set aside for the furniture, fixtures and equipment reserve	(d)	(42,053)	(37,967)
Amortisation of debt establishment costs		16,908	40,373
Fair value changes on investment properties		(2,044,180)	(91,252)
Depreciation		8,567	8,139
Foreign exchange differences, net		8,971	523
Deferred tax charge		35,712	22,518
Distributable income for the year	(a) & (b)	473,038	511,362
		HK\$	HK\$
Distributions per Unit:			
Interim	(a)	0.074	0.074
Final	(b) & (c)	0.071	0.080
		0.145	0.154

Notes:

- Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's total distributable income as defined in the Trust Deed ("Total Distributable Income") for each financial year. The current policy of the REIT Manager is to distribute to Unitholders no less than 90% of Regal REIT's Total Distributable Income for each financial year. The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. The REIT Manager on this basis made an interim distribution of HK\$0.074 per Unit for the six months ended 30th June, 2017, resulting in a total amount of interim distribution of HK\$241.0 million.
- Pursuant to the Trust Deed, the REIT Manager determines the date (the "Record Date") in respect of each distribution period for the purpose of establishing Unitholder entitlements to distributions. The Record Date has been set as 17th May, 2018 in respect of the final distribution for the period from 1st July, 2017 to 31st December, 2017. The final distribution will be paid out to Unitholders on or about 29th May, 2018. The total amount of final distribution to be paid to Unitholders of HK\$231.3 million is arrived at based on the final distribution per Unit of HK\$0.071 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\$231.3 million, amounted to HK\$472.3 million or 99.85% of the Total Distributable Income for the year.
- The final distribution of HK\$0.071 per Unit for the period from 1st July, 2017 to 31st December, 2017, involving an amount of HK\$231.3 million, was resolved and declared by the REIT Manager on 26th March, 2018. 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, 2018. The final distribution for the period from 1st July, 2016 to 31st December, 2016 of HK\$260.6 million is included in the amount of distributions paid during the year as reported in the current year consolidated financial statements.
- Amounts set aside by Regal REIT for the furniture, fixtures and equipment reserve (the "FF&E Reserve") with respect to Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels" and each referred to as the "Initial Hotel"), iclub Wan Chai Hotel, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel aggregated HK\$42.1 million (2016: HK\$38.0 million).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and distributions to Unitholders		2,594,515	684,694
Adjustments for:			
Difference in accounting rental income and contractual cash rental income	5	788	5,048
Fair value changes on investment properties	13	(2,044,180)	(91,252)
Interest income	6	(110)	(175)
Finance costs - excluding distributions to Unitholders	9	224,102	235,637
Depreciation	12	8,567	8,139
		<u>783,682</u>	<u>842,091</u>
Increase in accounts receivable		(18,824)	(2,494)
Decrease/(increase) in prepayments, deposits and other receivables		(1,090)	48
Increase in amounts due from related companies		(2)	(1,753)
Decrease/(increase) in restricted cash		89	(144)
Increase/(decrease) in accounts payable		37,269	(26,705)
Increase/(decrease) in deposits received		(435)	666
Increase in amounts due to related companies		9,468	1,210
Increase in other payables and accruals		1,942	10,746
		<u>812,099</u>	<u>823,665</u>
Cash generated from operations		812,099	823,665
Interest received		110	175
Interest paid		(195,560)	(192,679)
Hong Kong profits tax paid		(123,671)	(74,726)
		<u>492,978</u>	<u>556,435</u>
Net cash flows from operating activities		492,978	556,435
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(2,671)	(847)
Additions to investment properties		(99,820)	(60,748)
Acquisition of an investment property	24	(1,360,000)	—
Increase in restricted cash		(4,261)	(16,898)
		<u>(1,466,752)</u>	<u>(78,493)</u>
Cash flows used in investing activities		(1,466,752)	(78,493)

	Notes	2017 HK\$'000	2016 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings, net of debt establishment costs		1,776,634	4,783,000
Repayment of bank borrowings		(325,000)	(4,738,000)
Distributions paid		(501,644)	(501,644)
Net cash flows from/(used in) financing activities		949,990	(456,644)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(23,784)	21,298
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		58,515	37,217
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		34,731	58,515
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	34,731	58,515

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2017

1. GENERAL

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

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

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

2.1 BASIS OF PREPARATION

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

As at 31st December, 2017, the Group's current liabilities exceeded its current assets by HK\$2,823,750,000 (2016: HK\$175,017,000). The net current liabilities position included the outstanding revolving loans of HK\$877,000,000 and the outstanding medium term notes in the principal amounts of HK\$775,000,000 and US\$150,000,000 (HK\$1,171,950,000) which matured on 22nd March, 2018 and will mature on 22nd May, 2018, respectively. Regal REIT has recently concluded in March 2018 a bilateral financing arrangement for a 5-year term loan in the principal amount of HK\$3.0 billion, which is principally secured by a mortgage over the Regal Kowloon Hotel. This term loan was arranged mainly for the purpose of financing the repayment of the aforementioned medium term notes due in March and May of this year. Taking into account the current available banking facilities and the stable operating cash inflows generated from rental income, the REIT Manager considers the Group has adequate resources to meet its liabilities, commitments and funding requirements as and when they fall due within one year from the end of the reporting period. Accordingly, the REIT Manager continues to adopt the going concern basis in preparing the consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31st December, 2017. 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 HKFRSs for the first time for the current year financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in <i>Annual Improvements to HKFRSs 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12</i>

Other than as explained below regarding the impact of amendments to HKAS 7, the adoption of the above revised standards has had no significant financial effect on these financial statements.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 25 to the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ¹
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> ¹
HKFRS 9	<i>Financial Instruments</i> ¹
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ²
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 15	<i>Revenue from Contracts with Customers</i> ¹
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i> ¹
HKFRS 16	<i>Leases</i> ²
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ²
Amendments to HKAS 40	<i>Transfers of Investment Property</i> ¹
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i> ¹
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ²
<i>Annual Improvements to HKFRSs 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28 ¹
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to a number of HKFRSs and HKASs ²

¹ Effective for annual periods beginning on or after 1st January, 2018

² Effective for annual periods beginning on or after 1st January, 2019

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

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31st December, 2018 and are expected to have impact upon adoption. Whilst the REIT manager has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

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 will adopt HKFRS 9 from 1st January, 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1st January, 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the impairment requirements and are summarised as follows

Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its accounts receivable. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that, due to the unsecured nature of its accounts and other receivables, the provision for impairment may increase upon the initial adoption of the standard.

HKFRS 15, issued in July 2014, 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1st January, 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1st January, 2018. The Group expects that the transitional adjustment to be made on 1st January, 2018 upon initial adoption of HKFRS 15 will not be material.

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1st January, 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 26(b) to the financial statements, at 31st December, 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK\$10,159,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unitholders' funds

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

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Related parties

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

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

or

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at valuation less accumulated depreciation and any impairment losses. The 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.

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 loans and borrowings.

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

Subsequent measurement of 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 recognised in the consolidated statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged 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.

Provisions

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

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

Cash and cash equivalents

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

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable 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 profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable 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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Operating leases

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

Revenue recognition

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

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

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, 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, 2017 are as follows:

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

The operating segments of the Group for the year ended 31st December, 2016 were as follows:

	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Segment revenue			
Gross rental revenue	932,624	6,897	939,521
Gross hotel revenue	—	33,958	33,958
Total	<u>932,624</u>	<u>40,855</u>	<u>973,479</u>
Segment results	<u>921,052</u>	<u>22,835</u>	943,887
Fair value changes on investment properties	82,252	9,000	91,252
Depreciation	—	(8,139)	(8,139)
Interest and other income			190
REIT Manager fees			(96,149)
Trust, professional and other expenses			(10,710)
Finance costs - excluding distributions to Unitholders			(235,637)
Profit before tax and distributions to Unitholders			<u>684,694</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, 2017, the Group's segment assets, comprised of the aggregate fair values of the investment properties and property, plant and equipment in the hotel properties segment and the mixed use property segment, amounted to HK\$24,915,000,000 (2016: HK\$21,414,000,000) and HK\$877,000,000 (2016: HK\$808,000,000), 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, 2017		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditures	<u>99,820</u>	<u>2,671</u>	<u>102,491</u>
	Year ended 31st December, 2016		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditures	<u>60,748</u>	<u>847</u>	<u>61,595</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, 2017, revenue of HK\$916,012,000 (2016: HK\$932,624,000) was derived from the lease of the hotel properties to a single lessee which is a related company.

Geographical information

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

5. NET RENTAL AND HOTEL INCOME

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

The net rental and hotel income represents the aggregate of:

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

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

	Notes	2017 HK\$'000	2016 HK\$'000
Gross rental revenue			
Rental income			
Initial Hotels	(a)	770,139	751,436
iclub Wan Chai Hotel – Non-hotel portions		6,915	6,897
iclub Sheung Wan Hotel	(b)	46,306	83,102
iclub Fortress Hill Hotel	(c)	68,224	86,783
iclub Ma Tau Wai Hotel	(d)	19,942	—
Other income		11,401	11,303
		922,927	939,521
Property operating expenses		(12,527)	(12,160)
Net rental income		910,400	927,361
Gross hotel revenue		34,846	33,958
Hotel operating expenses		(18,105)	(17,432)
Net hotel income		16,741	16,526
Net rental and hotel income		927,141	943,887

Notes:

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

	2017	2016
	HK\$'000	HK\$'000
Base Rent	733,000	732,000
Variable Rent	37,139	19,436
	<u>770,139</u>	<u>751,436</u>

(b) Contractual cash rentals were received for the period from 1st January, 2017 to 9th February, 2017. Thereafter, according to the determination of the market rental package for the period from 10th February, 2017 to 31st December, 2017, Regal REIT received Base Rent and Variable Rent. An analysis of the iclub Sheung Wan Hotel rental income is as follows:

	2017	2016
	HK\$'000	HK\$'000
Contractual cash rental income	9,489	86,545
Difference in accounting rental income and contractual cash rental income	(407)	(3,443)
Base Rent	36,485	—
Variable Rent	739	—
	<u>46,306</u>	<u>83,102</u>

(c) Contractual cash rentals were received for the period from 1st January, 2017 to 27th July, 2017. Thereafter, pursuant to the determination of the market rental package for the period from 28th July, 2017 to 31st December, 2018, Regal REIT received pro-rated Base Rent and Variable Rent. An analysis of the iclub Fortress Hill Hotel rental income is as follows:

	2017	2016
	HK\$'000	HK\$'000
Contractual cash rental income	51,962	88,388
Difference in accounting rental income and contractual cash rental income	(2,643)	(1,605)
Base Rent	17,611	—
Variable Rent	1,294	—
	<u>68,224</u>	<u>86,783</u>

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

	2017	2016
	HK\$'000	HK\$'000
Contractual cash rental income	17,680	—
Difference in accounting rental income and contractual cash rental income	2,262	—
	<u>19,942</u>	<u>—</u>

6. INTEREST AND OTHER INCOME

	2017 HK\$'000	2016 HK\$'000
Bank interest income	110	175
Other	—	15
	<u>110</u>	<u>190</u>

7. REIT MANAGER FEES

	2017 HK\$'000	2016 HK\$'000
Base Fees	77,875	67,132
Variable Fees	28,395	29,017
Acquisition Fee	13,600	—
	<u>119,870</u>	<u>96,149</u>

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

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

For the financial year 2017, the REIT Manager elected to receive its Base Fees and Variable Fees in the form of cash, details of which can be referred to an announcement of Regal REIT published on 1st December, 2016.

8. TRUST, PROFESSIONAL AND OTHER EXPENSES

	2017 HK\$'000	2016 HK\$'000
Auditor's remuneration:		
Audit fees	1,800	1,730
Non-audit fees	937	767
Legal and other professional fees	6,411	2,166
Trustee fees	3,944	3,468
Valuation fees	730	650
Foreign exchange differences, net	8,971	523
Other expenses	1,584	1,406
	<u>24,377</u>	<u>10,710</u>

Regal REIT did not appoint any directors and the Group did not engage any employees during the year (2016: Nil) and, accordingly, no director and employee benefit expenses were incurred during the year (2016: Nil).

9. FINANCE COSTS - EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

	2017 HK\$'000	2016 HK\$'000
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on interest-bearing bank borrowings	122,282	111,562
Interest expense on other borrowings	81,799	81,840
Amortisation of debt establishment costs	16,908	40,373
	<u>220,989</u>	<u>233,775</u>
Others	3,113	1,862
	<u>224,102</u>	<u>235,637</u>

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2017	2016
	HK\$'000	HK\$'000
Current	70,478	98,196
Deferred (note 21)	35,712	22,518
Total tax charge for the year	106,190	120,714

A reconciliation of the tax charge applicable to profit before tax and distributions to Unitholders at the Hong Kong statutory tax rate of 16.5% (2016: 16.5%) to the tax charge at the Group's effective tax rate is as follows:

	2017	2016
	HK\$'000	HK\$'000
Profit before tax and distributions to Unitholders	2,594,515	684,694
Tax charge at the statutory tax rate	428,095	112,975
Adjustments in respect of current tax of previous periods	(3,421)	7,544
Income not subject to tax	(337,308)	(15,085)
Expenses not deductible for tax	19,235	14,709
Others	(411)	571
Tax charge at the Group's effective rate	106,190	120,714

11. EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of the basic earnings per Unit attributable to Unitholders is based on the profit for the year before distributions to Unitholders of HK\$2,488,325,000 (2016: HK\$563,980,000) and the weighted average of 3,257,431,189 Units (2016: 3,257,431,189 Units) in issue during the year. The basic earnings per Unit attributable to Unitholders for the year amounted to HK\$0.764 (2016: HK\$0.173).

The diluted earnings per Unit attributable to Unitholders is the same as the basic earnings per Unit attributable to Unitholders as there were no dilutive instruments in issue during the year (2016: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK\$'000
At 1st January, 2016	592,000
Additions	847
Surplus on revaluation	5,292
Depreciation provided during the year	(8,139)
	<hr/>
At 31st December, 2016 and 1st January, 2017	590,000
Additions	2,671
Surplus on revaluation	71,896
Depreciation provided during the year	(8,567)
	<hr/>
At 31st December, 2017	<u>656,000</u>

The Group's property, plant and equipment represents the value of land and building together with furniture, fixtures and equipment of iclub Wan Chai Hotel for the hotel portion. The REIT Manager has determined that the property, plant and equipment constitute one class of asset (i.e. hotel property) based on the nature, characteristics and risks of the property. The property, plant and equipment was valued by Colliers International (Hong Kong) Limited ("Colliers"), an independent property valuer and the principal valuer of Regal REIT, at HK\$656,000,000 as at 31st December, 2017 (2016: HK\$590,000,000). A revaluation surplus of HK\$71,896,000 (2016: HK\$5,292,000) resulting from the valuation as at 31st December, 2017 has been credited to other comprehensive income.

The property, plant and equipment is classified as Level 3 in the fair value hierarchy (note 30).

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\$405,586,000 (2016: HK\$409,202,000) 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 179.

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 are set out below.

	Hotel properties HK\$'000	Commercial properties HK\$'000	Total HK\$'000
At 1st January, 2016	21,271,000	209,000	21,480,000
Fair value changes	82,252	9,000	91,252
Capital expenditures for the year	60,748	—	60,748
	<u>21,414,000</u>	<u>218,000</u>	<u>21,632,000</u>
At 31st December, 2016 and 1st January, 2017			
Addition (note 24)	1,360,000	—	1,360,000
Fair value changes	2,041,180	3,000	2,044,180
Capital expenditures for the year	99,820	—	99,820
	<u>24,915,000</u>	<u>221,000</u>	<u>25,136,000</u>
At 31st December, 2017			

The Group's investment properties were valued by Colliers at HK\$25,136,000,000 as at 31st December, 2017 (2016: HK\$21,632,000,000). The investment properties are leased to a related company and other commercial tenants under operating leases, further details of which are included in note 26(a) to the consolidated financial statements.

The investment properties are classified as Level 3 in the fair value hierarchy (note 30).

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

Further particulars of the Group's investment properties are included on pages 178 to 179.

14. ACCOUNTS RECEIVABLE

	2017 HK\$'000	2016 HK\$'000
Difference in accounting rental income and contractual cash rental income	2,262	3,050
Variable Rent receivables	38,100	19,436
Other accounts receivable	1,352	1,192
	<u>41,714</u>	<u>23,678</u>

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

The Group's accounts receivable as at the end of the reporting period, based on invoice dates, are aged 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 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 thereon.

15. PREPAYMENTS AND DEPOSITS

	2017 HK\$'000	2016 HK\$'000
Prepayments	426	648
Deposits	5,534	4,222
	<u>5,960</u>	<u>4,870</u>

Deposits in the amount of HK\$1,212,000 (2016: 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 is kept in designated bank accounts in accordance with the relevant facility agreements and is restricted mainly for servicing finance costs on certain interest-bearing bank borrowings, funding and utilisation of furniture, fixtures and equipment expenditures for the Initial Hotels, iclub Wan Chai Hotel - Hotel portion, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel, and holding rental deposits from certain tenants.

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

	2017 HK\$'000	2016 HK\$'000
Amounts due to related companies	98,831	61,956
Other accounts payable	618	224
	<u>99,449</u>	<u>62,180</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.

19. INTEREST-BEARING BANK BORROWINGS

	2017 HK\$'000	2016 HK\$'000
Interest-bearing bank borrowings	7,857,000	6,402,000
Debt establishment costs	(49,397)	(61,254)
	<u>7,807,603</u>	<u>6,340,746</u>
Portion classified as current liabilities	(877,000)	(170,000)
Non-current portion	<u>6,930,603</u>	<u>6,170,746</u>
Amounts repayable:		
Within one year	877,000	170,000
In the second year	1,726,633	—
In the third to fifth years, inclusive	5,203,970	6,170,746
	<u>7,807,603</u>	<u>6,340,746</u>

On 12th September, 2016, Regal REIT, through wholly-owned subsidiaries, Bauhinia Hotels Limited and Rich Day Investments Limited, entered into a new 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 term loan portion of the 2016 IH Facilities was wholly drawn in September 2016 to repay the previous term loan facility of the same amount, which was originally due to mature in July 2018 and bore a higher interest margin; while the revolving loan portion was intended for general corporate funding purposes. Moreover, the 2016 IH Facilities are secured by four of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. As at 31st December, 2017, the 2016 IH Facilities had an outstanding term loan facility of HK\$4,500.0 million and a drawdown on the revolving loan facility of HK\$877.0 million.

On 22nd December, 2014, the term loan facility agreement for a principal amount of HK\$440.0 million (the “2014 WC Facility”), with a term of five years to December 2019, was entered into by Sonnix Limited, a wholly-owned subsidiary of Regal REIT. The 2014 WC Facility, secured by the iclub Wan Chai Hotel, was fully drawdown in December 2014. As at 31st December, 2017, the outstanding amount of the 2014 WC Facility was HK\$440.0 million, representing the full amount of the term loan facility.

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, 2017, the utilised amount of the 2014 SW Facilities was HK\$632.0 million, representing the full amount of the term loan facility.

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, 2017, the outstanding amount of the 2014 FH Facilities was HK\$660.0 million, representing the full amount of the term loan facility.

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

As at 31st December, 2017, the outstanding loan facilities bore interest at the Hong Kong Interbank Offered Rate plus an interest margin ranging from 0.95% per annum to 1.45% per annum (2016: ranging from 1.15% per annum to 1.45% per annum).

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

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

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

20. OTHER BORROWINGS

	2017 HK\$'000	2016 HK\$'000
Other borrowings, at nominal amount	1,946,950	1,938,100
Discount and issue costs	(1,182)	(4,761)
	<u>1,945,768</u>	<u>1,933,339</u>
Amounts repayable:		
Within one year	1,945,768	—
In the second year	—	1,933,339
	<u>1,945,768</u>	<u>1,933,339</u>

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

Subsequent to the end of the reporting period, on 22nd March, 2018, Regal REIT repaid the first tranche of notes denominated in HK dollars, for a principal amount of HK\$775.0 million (note 33).

21. DEFERRED TAX

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

	Fair value adjustments arising from revaluation of property, plant and equipment HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
Gross deferred tax assets/(liabilities) at 1st January, 2016	(29,292)	(454,359)	4,323	(479,328)
Deferred tax charged to other comprehensive income during the year	(873)	—	—	(873)
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 10)	333	(22,145)	(706)	(22,518)
	<u>(29,832)</u>	<u>(476,504)</u>	<u>3,617</u>	<u>(502,719)</u>
Gross deferred tax assets/(liabilities) at 31st December, 2016	<u>(29,832)</u>	<u>(476,504)</u>	<u>3,617</u>	<u>(502,719)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2017	(29,832)	(476,504)	3,617	(502,719)
Deferred tax charged to other comprehensive income during the year	(11,863)	—	—	(11,863)
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 10)	376	(47,130)	11,042	(35,712)
	<u>376</u>	<u>(47,130)</u>	<u>11,042</u>	<u>(35,712)</u>
Gross deferred tax assets/(liabilities) at 31st December, 2017	<u>(41,319)</u>	<u>(523,634)</u>	<u>14,659</u>	<u>(550,294)</u>

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

22. NUMBER OF UNITS IN ISSUE

	Number of Units	
	2017	2016
At beginning and end of the year	<u>3,257,431,189</u>	<u>3,257,431,189</u>

23. NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per Unit attributable to Unitholders is calculated by dividing the net assets attributable to Unitholders as at 31st December, 2017 of HK\$15,484,658,000 (2016: HK\$13,437,944,000) by the number of Units in issue of 3,257,431,189 (2016: 3,257,431,189) as at that date.

24. ACQUISITION OF AN INVESTMENT PROPERTY

Pursuant to the sale and purchase agreement (the "Sale Purchase Agreement"), Regal REIT completed the acquisition of a new hotel, iclub Ma Tau Wai Hotel, on 4th September, 2017 at a total consideration of HK\$1,361.3 million, comprised of the purchase price of HK\$1,360.0 million and a current assets adjustment of HK\$1.3 million. Such consideration was settled by: (a) applying the deposit of HK\$200.0 million; (b) drawing down on Regal REIT's existing bank facilities in the amount of HK\$412.0 million; (c) drawing down the term loan of HK\$748.0 million under the 2017 MTW Facility; and (d) using Regal REIT's internal resources in the amount of HK\$1.3 million.

25. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings HK\$'000	Other borrowings HK\$'000
At 1st January, 2017	6,340,746	1,933,339
Changes from financing cash flows	1,451,634	–
Non-cash changes:		
Amortisation of debt establishment costs	15,223	1,685
Interest expense	–	1,912
Foreign exchange movement	–	8,832
At 31st December, 2017	<u>7,807,603</u>	<u>1,945,768</u>

26. 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, 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	2017 HK\$'000	2016 HK\$'000
Within one year	906,600	842,925
In the second to fifth years, inclusive	241,411	11,740
After five years	–	43
	<u>1,148,011</u>	<u>854,708</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, 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2016
	HK\$'000	HK\$'000
Within one year	9,271	7,806
In the second to fifth years, inclusive	888	1,042
After five years	—	43
	10,159	8,891

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

During the year ended 31st December, 2017, the total minimum lease payments under operating leases in respect of land and buildings included in property and hotel operating expenses of HK\$9,361,000 (2016: HK\$9,326,000) were charged to the consolidated statement of profit or loss.

27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26(b) above, the Group had the following capital commitments in respect of its properties at the end of the reporting period:

	2017	2016
	HK\$'000	HK\$'000
Authorised, but not contracted for	103,227	97,692

28. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

(a) Transactions with connected/related parties:

	Notes	2017 HK\$'000	2016 HK\$'000
Contractual rental income received/receivable from the RHIHL Group	(i)	916,800	937,672
Rental income received/receivable from the RHIHL Group	(ii)	1,473	—
Hotel management fees charged by the RHIHL Group	(iii)	(1,578)	(1,549)
Marketing fees charged by the RHIHL Group	(iv)	(348)	(340)
Building management fees charged by the PHL Group	(v)	(589)	(567)
REIT Manager fees	(vi)	(119,870)	(96,149)
Trustee fees	(vii)	(3,944)	(3,468)
Valuation and other services fees paid/payable to the principal valuer	(viii)	(1,077)	(650)
Meeting fees charged by the RHIHL Group	(ix)	(154)	(234)
Acquisition of an investment property and related current assets	(x)	<u>(1,361,262)</u>	<u>—</u>

Notes:

- (i) The rental income earned by the Group was in accordance with the relevant lease agreements with respect to the Initial Hotels, iclub Sheung Wan Hotel, iclub Fortress Hill Hotel and iclub Ma Tau Wai Hotel.
- (ii) The rental income earned by the Group was in accordance with the relevant tenancy agreement with respect to Shop Nos. A & B, which is part of the iclub Wan Chai Hotel.
- (iii) The hotel management fees in respect of iclub Wan Chai Hotel – Hotel portion were comprised of (a) a base fee, for an amount based on 2% of the gross hotel revenue, and (b) an incentive fee based on 5% of the excess of the gross operating profit over the base fee and fixed charges in accordance with the corresponding hotel management agreement.
- (iv) The marketing fees in respect of iclub Wan Chai Hotel – Hotel portion were charged at 1% of the gross hotel revenue of iclub Wan Chai Hotel – Hotel portion in accordance with the corresponding hotel management agreement.
- (v) The building management fees were charged at a mutually agreed amount payable on a monthly basis in respect of iclub Wan Chai Hotel – Non-hotel portions.
- (vi) The REIT Manager is entitled to receive Base Fees, Variable Fees and Acquisition Fee, 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 meeting fees were charged at mutually agreed amounts.
- (x) The Group acquired an investment property and related current assets from P&R Holdings in accordance with the Sale Purchase Agreement and the details of which are set out in note 24 to the consolidated financial statements.

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

	Notes	2017 HK\$'000	2016 HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables	(i)	38,100	19,436
Accounts payable to related companies	(ii)	(98,831)	(61,956)
Other payables	(ii)	(154)	(234)
Amounts due from related companies	(ii)	4,599	4,597
Amounts due to related companies	(ii)	(10,723)	(1,255)
Net amounts due from the PHL Group:			
Deposits paid	(ii)	1,212	1,212
Net amounts due to:			
The Trustee	(iii)	(1,231)	(879)
The principal valuer	(iv)	(510)	(430)
Restricted and non-restricted bank balances with the Deutsche Bank Group	(v)	156	199

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 2017, the RHIHL Group provided a third party guarantee as a security deposit for an amount of HK\$183.25 million (2016: HK\$183.0 million), which is equivalent to three-month Base Rent for the year 2017, issued by a licensed bank in Hong Kong.
- (d) Under a deed of trade mark licence, the RHIHL Group granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trade marks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.
- (e) On 23rd December, 2010, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Wan Chai Hotel for a 10-year term commencing on 1st January, 2011.

- (f) On 10th February, 2014, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Sheung Wan Hotel for a 10-year term commencing on 10th February, 2014.
- (g) On 28th July, 2014, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Fortress Hill Hotel for a 10-year term commencing on 28th July, 2014.
- (h) On 4th September, 2017, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of iclub Ma Tau Wai Hotel for a 10-year term commencing on 4th September, 2017.

29. 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	
	2017	2016
	HK\$'000	HK\$'000
Accounts receivable	41,714	23,678
Financial assets included in prepayments and deposits	5,534	4,222
Due from related companies	4,599	4,597
Restricted cash	67,661	63,489
Cash and cash equivalents	34,731	58,515
	<u>154,239</u>	<u>154,501</u>

Financial liabilities

	Financial liabilities at amortised cost	
	2017	2016
	HK\$'000	HK\$'000
Accounts payable	99,449	62,180
Deposits received	3,660	4,095
Due to related companies	10,723	1,255
Other payables and accruals	52,381	49,549
Interest-bearing bank borrowings	7,807,603	6,340,746
Other borrowings	1,945,768	1,933,339
	<u>9,919,584</u>	<u>8,391,164</u>

30. FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

Fair value hierarchy

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

Assets measured at fair value:

As at 31st December, 2017

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

As at 31st December, 2016

	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	—	—	590,000	590,000
Investment properties	—	—	21,632,000	21,632,000
	—	—	22,222,000	22,222,000

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: 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

	Range 2017	Range 2016
Significant unobservable inputs		
Capitalisation rate	3.25%	3.75%
Discount rate	6.25%	6.75%
Growth rate p.a. (Approximately)	2.7% to 9.0%	2.7% to 11.0%
Occupancy rate	95% to 96%	99% to 100%
Room rate per day (Approximately)	HK\$1,100 to HK\$1,700	HK\$1,100 to HK\$1,700
Gross operating profit (as a % of revenue) (Approximately)	56% to 57%	57% to 58%

(b) Investment properties

	Range 2017	Range 2016
Significant unobservable inputs	Asset Class	
Capitalisation rate	Hotel and commercial	2.50% to 4.25%
Discount rate	Hotel and commercial	5.50% to 7.25%
Growth rate p.a. (Approximately)	Hotel	2.7% to 14.0%
Occupancy rate	Hotel	85% to 97%
Room rate per day (Approximately)	Hotel	HK\$700 to HK\$1,900
Gross operating profit (as a % of revenue) (Approximately)	Hotel	33% to 64%
Estimated rental p.a. (Approximately)	Commercial	HK\$6,400,000 to HK\$8,400,000

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.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Interest rate risk

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

For Hong Kong dollar borrowings, assuming the amount of bank borrowings outstanding at the end of the reporting period was outstanding for the whole year, a 100 basis point increase in interest rates would have hypothetically decreased the Group's profit before tax and distributions to Unitholders for the current year by HK\$78.6 million (2016: HK\$64.0 million). A 10 basis point decrease in interest rates would have hypothetically increased the Group's profit before tax and distributions to Unitholders for the current year by HK\$7.9 million (2016: HK\$6.4 million).

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

Credit risk

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

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

Liquidity risk

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

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

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

	2016			Total HK\$'000
	On demand HK\$'000	Less than 12 months HK\$'000	1 to 5 years HK\$'000	
Accounts payable	61,956	224	—	62,180
Deposits received	—	1,860	2,235	4,095
Due to related companies	—	1,255	—	1,255
Other payables and accruals	—	49,549	—	49,549
Interest-bearing bank borrowings	—	293,281	6,604,161	6,897,442
Other borrowings	—	79,656	1,963,528	2,043,184
	<u>61,956</u>	<u>425,825</u>	<u>8,569,924</u>	<u>9,057,705</u>

Capital management

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

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

The Group monitors the capital management position using the loan-to-value ratio and the gearing ratio. At the end of the reporting period, the loan-to-value ratios in connection with certain utilised banking facilities ranged from 37.6% to 50.9% (2016: ranged from 41.3% to 54.5%), 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 37.8% (2016: 37.3%), being the gross amount of the outstanding debts and loans aggregating HK\$9,804.0 million (2016: HK\$8,340.1 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\$1,947.0 million (2016: HK\$1,938.1 million); (b) the 2016 IH Facilities of HK\$5,377.0 million (2016: HK\$4,670.0 million); (c) the 2014 WC Facility of HK\$440.0 million (2016: HK\$440.0 million); (d) the 2014 SW Facilities of HK\$632.0 million (2016: HK\$632.0 million); (e) the 2014 FH Facilities of HK\$660.0 million (2016: HK\$660.0 million); and (f) the 2017 MTW Facility of HK\$748.0 million (2016: Nil), as compared to the total gross assets of Regal REIT of HK\$25,958.3 million (2016: HK\$22,377.3 million). The gearing ratio is below the maximum 45% permitted under the REIT Code.

32. SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

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

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

33. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, Regal REIT concluded in March 2018 a bilateral financing arrangement for a 5-year term loan in the principal amount of HK\$3,000.0 million, which is principally secured by a mortgage over the Regal Kowloon Hotel. This term loan was arranged mainly for the purpose of financing the repayment of the two medium term notes due in March and May, respectively, this year. This new term loan facility bears a HIBOR-based interest margin and has a term of five years to March 2023. On 22nd March, 2018, Regal REIT repaid the first tranche of notes denominated in HK dollars, for a principal amount of HK\$775.0 million.



To the Unitholders of Regal Real Estate Investment Trust

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries (the "Group") set out on pages 66 to 111, which comprise the consolidated statement of financial position as at 31st December, 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets attributable to unitholders, the consolidated statement of cash flows and the distribution statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial disposition of the Group as at 31st December, 2017, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
<i>Valuation of investment properties and property, plant and equipment</i>	
<p>As at 31st December, 2017, the Group's investment properties and property, plant and equipment were valued at HK\$25.1 billion and HK\$0.7 billion, respectively, which made up, in aggregate, 99.4% of the Group's total assets. The Group engaged an external valuer to perform the property valuations for the investment properties and property, plant and equipment on a half-yearly basis. The valuation process is inherently subjective and dependent on a number of estimates.</p> <p>The Group's accounting policies and disclosures on the valuation of investment properties and property, plant and equipment are set out in notes 2.4, 3, 12, 13 and 30 to the consolidated financial statements.</p>	<p>With the assistance from our internal valuation specialists, we evaluated the valuation methodology used and the underlying assumptions in connection with the fair values of investment properties and property, plant and equipment of the Group as at 31st December, 2017. The valuation is based on, among others, assumptions on capitalisation rates, discount rates, annual growth rates, occupancy rates, daily room rates, gross operating profits and estimated annual rentals. We also evaluated the competence, capabilities and independence of the external valuer.</p>
<i>Compliance with financial covenants</i>	
<p>As at 31st December, 2017, the Group's interest-bearing bank and other borrowings amounted to HK\$7,807.6 million and HK\$1,945.8 million, respectively. The Group is required to comply with certain financial covenants for its bank borrowings as stipulated in the respective loan agreements. In addition, the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Hong Kong Securities and Futures Commission also stipulates that the Group has to maintain a gearing ratio of not more than 45%. The compliance with these financial covenants is a significant aspect of our audit.</p> <p>The Group's disclosures on major financial covenants and gearing ratio are set out in note 31 to the consolidated financial statements.</p>	<p>We reviewed the terms and covenants in the loan agreements and evaluated whether the Group has complied with the terms and covenants set out in the loan agreements and the REIT Code.</p>

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE REIT MANAGER FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wu Ka Lai, Cary.

Ernst & Young

Certified Public Accountants

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

26th March, 2018

As at 31st December, 2017

	Notes	Year ended 31st December, 2017	Year ended 31st December, 2016	Year ended 31st December, 2015	Year ended 31st December, 2014	Year ended 31st December, 2013
Net assets attributable to Unitholders (HK\$'million)		15,484.7	13,437.9	13,371.2	15,502.6	15,774.1
Net asset value per Unit attributable to Unitholders (HK\$)		4.754	4.125	4.105	4.759	4.843
The highest traded price during the year (HK\$)	1	2.45	2.2	2.37	2.32	2.75
The lowest traded price during the year (HK\$)		2.05	1.72	1.88	1.92	2.15
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		56.88%	58.30%	54.20%	59.66%	55.61%
Distribution yield per Unit	2	6.04%	7.48%	7.94%	7.90%	6.73%

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, 2017 is calculated by dividing the total distributions per Unit of HK\$0.145 over the Unit closing price of HK\$2.4 on the last trading day of 2017. Details of the total distributions per Unit is set out in the section "Distribution Statement" on page 71.

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 2017 to 31 December 2017.

DB Trustees (Hong Kong) Limited

(in its capacity as the trustee of Regal REIT)

Hong Kong, 6 March 2018



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
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AND

T: (852) 2822 0525
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DB TRUSTEES (HONG KONG) LIMITED

(AS "TRUSTEE" OF REGAL REIT)
 LEVEL 52, INTERNATIONAL COMMERCE CENTRE
 1 AUSTIN ROAD WEST
 KOWLOON
 HONG KONG

EA LICENCE: C-006052

28 FEBRUARY 2018

DEAR SIR/MADAM,

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

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 2017 (the "Valuation Date").

Valuer's Interest

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 and the Trustee.
- 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 (2017 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 Approach – Discounted Cash Flow (“DCF”) 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.

As the Properties are held for long-term investment, we have undertaken the DCF Analysis on an annual basis over a ten-year investment horizon which is a common market practice and a reasonable investment holding period for a property based on the prevailing property market in Hong Kong. This ten-year analysis allows the stabilization of income over such period and an investor or owner to make an assessment of the long-term return of the property taking into account capital growth.

In the case of our valuations of the Properties, annual cash flow of the Properties is typically estimated as their gross income less operating expenses and other outgoings. The annual gross income over the ten-year period mainly included revenues generated from hotel rooms taking into account the projected annual occupancy rate and annual growth in daily room rate.

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 assumed that the Properties are sold at the commencement of the eleventh year of the cash flow, which is a common market practice to derive the capital value at the end of the investment period, and the net income in the eleventh year has been capitalised at a terminal capitalisation rate to derive the capital value, which is discounted at the discount rate into present value, at the end of the tenth year.

This analysis has then been cross-checked by the Market Approach assuming sale 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 ‘arms-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 Manager 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 Manager 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 Stella Ho (MRICS and MHKIS) on 9 January 2018 and Candy Tsang (MRICS) on 11 January 2018. 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 Properties can be sold 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 neither 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 Manager 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 Manager. 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 valuations of the Properties are set out on the Valuation Certificates attached hereto, which together with this covering letter, and Summary of Values, form our valuation report.

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

Managing 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 18 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. He is suitably qualified to carry out the valuation and has over 38 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 2017 HK\$
1	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	3,700,000,000
2	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	4,220,000,000
3	Regal Kowloon Hotel 71 Mody Road Tsimshatsui Kowloon Hong Kong	5,650,000,000
4	Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on Ground Floor including Cockloft of Shops 5-7 and the whole of 1/F Po Shing Court 21-25 Shek Ku Lung Road 40-42 Sa Po Road and 15-29 Carpenter Road Kowloon City Kowloon Hong Kong	1,890,000,000
5	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin New Territories Hong Kong	4,800,000,000

No.	Property	Market Value in existing state as at 31 December 2017 HK\$
6	iclub Wan Chai Hotel Shops A, B and C on G/F, Flat Roof on 3/F Whole of 5-12/F, 15-23/F and 25-29/F Eastern and Western Elevations of External Walls Architectural Feature at Roof Top and Upper Roof 211 Johnston Road Wan Chai Hong Kong	877,000,000
7	iclub Sheung Wan Hotel 138 Bonham Strand Sheung Wan Hong Kong	1,560,000,000
8	iclub Fortress Hill Hotel 18 Merlin Street North Point Hong Kong	1,625,000,000
9	iclub Ma Tau Wai Hotel 8 Ha Heung Road Kowloon Hong Kong	1,470,000,000
Total:		25,792,000,000

Property 1

REGAL AIRPORT HOTEL

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

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

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.

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

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	197	Spa Cabana Room	5
Superior Room	332	Spa Suite	2
Deluxe Room	45	Honeymoon Suite	1
Prime Deluxe Room	105	Royal Suite	11
Premier Room	68	Spa Duplex Suite	2
Cabana Room	17	Deluxe Suite	15
Family Triple Room	23	Apartment Suite	9
Family Quadruple Room	165	Presidential Suite	1
Executive Club Floor Superior Room	68		
Executive Club Floor Deluxe Room	91		
Spa Deluxe Room	14		
		Total	1,171

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

Food and Beverage Outlets

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

Meeting and Banquet Facilities

Floor	Name of Function Room	Type of Facility	No. of Rooms	Seating Capacity (approx.)		
				Area (sq.m.)	Boardroom Style	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	403	264
2/F	Meeting Rooms	Meeting and Conference	3	94	38	N/A
9/F	Meeting Room	Meeting and Conference	1	60	40	N/A

Other Facilities

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

2. OWNERSHIP AND TENURE

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

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

Major Registered Encumbrances

- Sub-lease of Hotel in favour of Bauhinia Hotels Limited dated 12 August 2004, registered vide Memorial No. IS342341. The term of the Sub-lease commenced from 31 December 2003 until the date occurring 25 years thereafter.
- Supplemental Lease (To Sub-lease of Hotel Memorial No. IS342341) in favour of Bauhinia Hotels Limited dated 8 November 2006, registered vide Memorial No. 06112400700018.
- Lease Agreement (No. 1 for Regal Airport Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910065. (Remarks: By Bauhinia Hotels Limited from 30 March 2007 to 31 December 2015)
- First Supplemental Agreement amending Lease Agreement No. 1 for Regal Airport Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510099. (Remarks: By Bauhinia Hotels Limited)
- G.N. 2761 dated 26 April 2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590037. (Remarks: with plans No. ISM1741A (re portion), re: PWP item No. 844th Hong Kong-Zhuhai-Macao Bridge Hong Kong Link Road)
- G.N. 2762 dated 26 April 2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590012. (Remarks: with plans No. ISM1731A-1 (re portion), re: PWP Item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong boundary crossing facilities)
- G.N. 2763 dated 26 April 2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590049. (Remarks: with plans nos. ISM1742A and ISM1757A for creation of easements and other permanent rights and rights of temporary occupation of land. Re: PWP item No. 844th Hong Kong-Zhuhai-Macao Bridge Hong Kong Link Road)
- G.N. 2764 dated 26 April 2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590024. (Remarks: with plan Nos. ISM1734B-I and ISM1732B-I (re portion) for creation of easements and other permanent rights and rights of temporary occupation of land. Re: PWP item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong boundary crossing facilities)
- G.N. 6022 dated 10 October 2013 under Roads (works, use and compensation) Ordinance (Chapter 370) with plan dated 10 October 2013, registered vide Memorial No. 13102500820010. (Remarks: re portion, re: PWP Item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities Creation of Rights of Temporary Occupation of Land)
- Consent Letter dated 19 November 2013, registered vide Memorial No. 13120201030063. (Remarks: from District Lands Officer, Islands)

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

3. HOTEL OPERATION

Hotel Performance in 2017

Occupancy Rate : 89%

Average Room Rate : HK\$1,213

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 Rent² 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 Hotels³.

According to the 2017 and 2018 Market Rental Package Determinations, Base Rent for RAH for the fiscal years of 2017 and 2018 are HK\$241,000,000 and HK\$252,000,000 respectively, and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

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

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

Hotel Management Agreement (“HMA”)

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

4. RETAIL TENANCY/LICENCE SCHEDULES

Retail⁶

Retail Area (Lettable)	:	Approx. 39,276 sq.ft. (3,649 sq.m.)
Occupied Area (Lettable)	:	Approx. 30,033 sq.ft. (2,790 sq.m.)
Vacant Area (Lettable)	:	Approx. 9,243 sq.ft. (859 sq.m.)
Occupancy Rate	:	76.5%
Monthly Base Rent	:	HK\$1,335,815 (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.)

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

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

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

Tenancy Expiry Profile

Year	Lettable		Monthly		No. of	
	Area (sq.ft.)	% of Total	Rent (HK\$)	% of Total	Tenancy	% of Total
Monthly	794	2.6%	27,790	2.1%	1	7.7%
Year Ending 2018	9,035	30.1%	332,133	24.9%	7	53.8%
Year Ending 2019	8,261	27.5%	318,060	23.8%	2	15.4%
Year Ending 2020	6,570	21.9%	378,540	28.3%	2	15.4%
Year Ending 2021	5,373	17.9%	279,292	20.9%	1	7.7%
Total	30,033	100% (rounded)	1,335,815	100% (rounded)	13	100% (rounded)

Tenancy Duration Profile

Tenancy Duration	Lettable		Monthly		No. of	
	Area (sq.ft.)	% of Total	Rent (HK\$)	% of Total	Tenancy	% of Total
Monthly	794	2.6%	27,790	2.1%	1	7.7%
More than 1 year and up to 2 years	8,052	26.8%	287,133	21.5%	6	46.2%
More than 2 years and up to 3 years	15,814	52.7%	741,600	55.5%	5	38.5%
More than 3 years and up to 4 years	5,373	17.9%	279,292	20.9%	1	7.7%
Total	30,033	100% (rounded)	1,335,815	100% (rounded)	13	100% (rounded)

Latest Expiry Date : 12 September 2021

Range of Rent-free Period : 0 to 4.5 months

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

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

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

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

Number of Licences	:	6
Monthly Licence Fee	:	HK\$197,596 per month
Latest Expiry Date	:	14 February 2019

5. ESTIMATED NET PROPERTY YIELD⁸

7.3%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2017

HK\$3,700,000,000 (Three Billion and Seven Hundred Million Hong Kong dollars)

⁸ The Estimated Net Property Yield of RAH is derived from the rent receivable in 2017 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 Street⁹.

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

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	34	Executive Club Floor Deluxe Room	36
Superior Room	168	Executive Suite	20
Deluxe Room	64	Deluxe Suite	8
Prime Deluxe Room	27	Presidential Suite	1
Premier Room	6	Imperial Suite	1
Family Triple Room	89	Chairman Suite	1
Family Quadruple Room	12	Regal Royale Suite	2
Executive Club Floor Superior Room	12		
		Total	481

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

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

¹⁰ The area excludes the rented space.

¹¹ The area excludes the rented space.

Food and Beverage Outlets

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

Meeting and Banquet Facilities

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

Other Facilities

Other facilities include a gymnasium and an outdoor swimming pool.

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

3. HOTEL OPERATION

Hotel Performance in 2017

Occupancy Rate	:	91%
Average Room Rate	:	HK\$1,267

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 Rent¹² 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 Hotels¹³.

According to the 2017 and 2018 Market Rental Package Determinations, Base Rent for RHK for the fiscal years of 2017 and 2018 are HK\$126,000,000 and HK\$127,000,000 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 Revenue¹⁴ (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 GOP¹⁵ 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\$176,400 per month

Latest Expiry Date : 15 August 2019

5. ESTIMATED NET PROPERTY YIELD¹⁶

3.0%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2017

HK\$4,220,000,000 (Four Billion Two Hundred and Twenty Million Hong Kong dollars)

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

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

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

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

¹⁶ The Estimated Net Property Yield of RHK is derived from the base rent receivable in 2017 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	147
Superior Room	39	Executive Club Floor Premier Room	29
Deluxe Room	27	Executive Suite	12
Prime Deluxe Room	36	Royal Suite	10
Premier Room	144	Deluxe Suite	16
Executive Club Floor Superior Room	98	Presidential Suite	1
		Total	600

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

Food and Beverage Outlets

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

Meeting and Banquet Facilities

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

Other Facilities

Other facilities include a fitness room and a shopping arcade.

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.

¹⁷ 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 2017

Occupancy Rate : 90%

Average Room Rate : HK\$1,188

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 Rent¹⁸ 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 Hotels¹⁹.

According to the 2017 and 2018 Market Rental Package Determinations, Base Rent for RKH for the fiscal years of 2017 and 2018 are HK\$154,000,000 and HK\$155,000,000 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 Revenue²⁰ (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 GOP²¹ 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)

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

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

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

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

4. RETAIL TENANCY/LICENCE SCHEDULES

Retail²²

Retail Area (Lettable)	:	Approx. 43,147 sq.ft. (4,008 sq.m.)
Occupied Area (Lettable)	:	Approx. 40,221 sq.ft. (3,737 sq.m.)
Vacant Area (Lettable)	:	2,926 sq.ft. (271 sq.m.)
Occupancy Rate	:	93%
Monthly Base Rent	:	\$1,859,080 (All tenancies except seven are exclusive of rates, management fees and air-conditioning charges; the remaining tenancies are inclusive of management fees and air-conditioning charges, but exclusive of rates)

Tenancy Expiry Profile

Year	Lettable Area (sq.ft.)	% of Total	Monthly Rent (HK\$)	% of Total	No. of Tenancy	% of Total
Monthly	1,362	3.4%	27,380	1.5%	3	12.0%
Year Ending 2018	12,811	31.9%	619,707	33.3%	11	44.0%
Year Ending 2019	13,458	33.5%	621,730	33.4%	7	28.0%
Year Ending 2020	12,590	31.3%	590,263	31.8%	4	16.0%
Total	40,221	100% (rounded)	1,859,080	100% (rounded)	25	100% (rounded)

Tenancy Duration Profile

Tenancy Duration	Lettable Area (sq.ft.)	% of Total	Monthly Rent (HK\$)	% of Total	No. of Tenancy	% of Total
Monthly	1,362	3.4%	27,380	1.5%	3	12.0%
More than 1 year and up to 2 years	3,714	9.2%	210,536	11.3%	9	36.0%
More than 2 years and up to 3 years	16,737	41.6%	852,543	45.9%	9	36.0%
More than 3 years and up to 4 years	17,305	43.0%	696,926	37.5%	3	12.0%
More than 4 years and up to 5 years	1,103	2.7%	71,695	3.9%	1	4.0%
Total	40,221	100% (rounded)	1,859,080	100% (rounded)	25	100% (rounded)

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

Latest Expiry Date	:	3 December 2020
Range of Rent-free Period	:	0 to 6 months
Option to Renew	:	One of the tenancies have an option to renew for a further term of two years at market rent.
Summary of Terms	:	The Landlord ²³ is responsible for payment of Government Rent and the structural and external repairs while the Tenant is responsible for the internal repairs of the Property.

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

Number of Licences	:	8
Monthly Licence Fee	:	HK\$150,141 per month
Latest Expiry Date	:	30 April 2019

5. ESTIMATED NET PROPERTY YIELD²⁴

2.8%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2017

HK\$5,650,000,000 (Five Billion Six Hundred and Fifty Million Hong Kong dollars)

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

²⁴ The Estimated Net Property Yield of RKH is derived from the rent receivable in 2017 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.

Site Area	:	New Kowloon Inland Lot No. 5754 (Regal Oriental Hotel) – 1,797 sq.m. New Kowloon Inland Lot No. 4917 (Po Sing Court) – 741 sq.m.
Gross Floor Area	:	22,601 sq.m.
Covered Floor Area	:	Approx. 27,300 sq.m.
Town Planning Zoning	:	ROH falls within "Commercial" zone and Po Sing Court falls within "Residential (Group A) 2" zone under Ma Tau Kok Outline Zoning Plan No. S/K10/22 dated 15 April 2016.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	55	Executive Club Floor Deluxe Room	45
Superior Room	148	Executive Suite	14
Deluxe Room	72	Royal Suite	1
Prime Deluxe Room	71	Deluxe Suite	9
Premier Room	23	Presidential Suite	1
Executive Club Floor Superior Room	55		
		Total	494

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

Food and Beverage Outlets

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

Meeting and Banquet Facilities

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

Other Facilities

Other facilities include a fitness room and some retail spaces.

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.

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

Major Registered Encumbrances

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

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

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

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

3. Hotel Operation

Hotel Performance in 2017

Occupancy Rate	:	87%
Average Room Rate	:	HK\$720

Lease Agreement

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

According to the 2017 and 2018 Market Rental Package Determinations, Base Rent for ROH for the fiscal years of 2017 and 2018 are both HK\$62,000,000; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

Hotel Management Agreement ("HMA")

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

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

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

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

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

4. RETAIL TENANCY/LICENCE SCHEDULES

Retail³⁰

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

Licences for Mobile Phone Base Stations and Antennae

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

5. ESTIMATED NET PROPERTY YIELD³¹

3.3%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2017

HK\$1,890,000,000 (One Billion Eight Hundred and Ninety Million Hong Kong dollars)

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

³¹ The Estimated Net Property Yield of ROH is derived from the base rent receivable in 2017 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.

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

Hotel Guestroom Configuration

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

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

³² According to the latest amendments, the Sha Tin Outline Zoning Plan has been amended to No. S/ST/33 dated 13 January 2017.

Food and Beverage Outlets

Floor	Name of Outlet	Type of Facility	Seating Capacity (approx.)	
			Area (sq.m.)	No. of normal dining seating
G/F	Vi ³³	Thai-Vietnamese Cuisine	145	92
G/F	Moon River	Local Authentic Restaurant	97	72
G/F	Aji Bou Izakaya	Japanese Cuisine	118	76
G/F	Avanti Pizzeria ³⁴	Italian Cuisine	154	98
G/F	Scene Bar	Live Music Lounge	210	88
G/F	Taiwan Delight	Taiwanese Cuisine	31	20
1/F	Carnival Bar	American Bar	286	120
1/F	Dragon Inn	Huai Yang Cuisine	318	156
2/F	Regal Terrace	Cantonese and selected Provincial Cuisines	726	460
2/F	Regal Court	Chinese Fine Dining Cuisine	205	80
3/F	L'Eau Restaurant	International Poolside BBQ Buffet and Singaporean and Malaysian a la carte menu	409	220

Meeting and Banquet Facilities

Floor	Name of Function Room	Type of Facility	No. of Rooms	Seating Capacity (approx.)		
				Area (sq.m.)	Boardroom Style	No. of seating in Theatre/ Banquet Style
1/F	Ballroom	Banquet/Convention	1	474	450	456
1/F	Multi-purpose Function Rooms	Banquet/Convention	2	108	80	72
1/F	Forum	Meeting and Convention	1	518	500	432
2/F	Multi-purpose Function Rooms	Banquet/Convention	4	319	205	312
3/F	Multi-purpose Function Rooms	Banquet/Convention	4	313	200	300
15/F	Meeting Room in Club Lounge	Meeting and Conference	1	14	8	N/A

Other Facilities

Other facilities include an outdoor swimming pool, a health club with gymnasium and spa/massage facilities and some retail spaces.

³³ Outside seating areas are provided on the Ground Floor.

³⁴ Outside seating areas are provided on the Ground Floor.

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.
- Second Supplemental Deed amending Lease Agreement No. 5 for Regal Riverside Hotel in favour of Favour Link International Limited dated 12 March 2015, registered vide Memorial No. 15042302380265.
- Regal Riverside Debenture in favour of Hang Seng Bank Limited dated 29 September 2016, registered vide Memorial No. 16102702370310.

3. HOTEL OPERATION

Hotel Performance in 2017

Occupancy Rate	:	83%
Average Room Rate	:	HK\$742

Lease Agreement

Lessor	:	Regal Riverside Hotel Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Listing Date and expiring on 31 December 2020 (both days inclusive).

Rental : From 2011 to 2020, the Market Rent³⁵ 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 Hotels³⁶.

According to the 2017 and 2018 Market Rental Package Determinations, Base Rent for RRH for the fiscal years of 2017 and 2018 are HK\$150,000,000 and HK\$155,000,000 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 Revenue³⁷ (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 GOP³⁸ 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

Retail³⁹

Retail Area (Lettable) : Approx. 2,697 sq.ft. (251 sq.m.)

Occupied Area (Lettable) : Approx. 1,973 sq.ft. (183 sq.m.)

Vacant Area (Lettable) : 724 sq.ft. (67.3 sq.m.)

Occupancy Rate : 73.2%

Monthly Base Rent : HK\$81,000 (all are exclusive of rates, management fees and air-conditioning charges)

³⁵ According to the Lease Agreement, the Market Rent to be determined includes the Base Rent, Variable Rent and the Lessee’s contribution to the FF&E Reserve.

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

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

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

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

Tenancy Expiry Profile

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

Tenancy Duration Profile

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

Latest Expiry Date : 14 November 2018

Range of Rent-free Period : 0 to 1 month

Option to Renew : N/A

Summary of Terms : The Landlord⁴⁰ is responsible for payment of Government Rent and the structural and external repairs while the Tenant is responsible for the internal repairs of the Property.

Licences for Mobile Phone Base Stations and Antennae

Number of Licences : 4

Monthly Licence Fee : HK\$184,800 per month

Latest Expiry Date : 31 March 2020

5. ESTIMATED NET PROPERTY YIELD⁴¹

3.1%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2017

HK\$4,800,000,000 (Four Billion and Eight Hundred Million Hong Kong dollars)

⁴⁰ All tenancy agreements/licences are entered into by Favour Link International Ltd as Landlord.

⁴¹ The Estimated Net Property Yield of RRH is derived from the base rent receivable in 2017 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 omitted), 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.

Site Area	:	413 sq.m.
Gross Floor Area	:	5,326 sq.m.
Covered Floor Area	:	Approx. 5,530 sq.m.
Town Planning Zoning	:	"Commercial" zone under 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	18	iBusiness Deluxe	29
iSelect Premier	12	iSuite	4
iPlus Premier	29	iResidence	7
		Total	99

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

Other Facilities

Other facilities include a club lounge and a gymnasium.

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 2017

Occupancy Rate	:	95%
Average Room Rate	:	HK\$1,011

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	From the Effective Date ⁴² , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of 31 December 2020.
Base Fee	:	Two percent (2%) of the Gross Revenue ⁴³
Incentive Fee	:	Five percent (5%) of the excess of the GOP ⁴⁴ over the Base Fee and the Fixed Charges.

4. RETAIL/OFFICE TENANCY SCHEDULES

Retail⁴⁵

Total Retail Area (gross area)	:	1,800 sq.ft. (167 sq.m.)
Occupied Area (gross area)	:	1,800 sq.ft. (167 sq.m.)
Vacant Area (gross area)	:	0 sq.ft. (0 sq.m.)
Occupancy Rate	:	100%
Monthly Base Rent	:	HK\$140,000 (The base rent is exclusive of rates, government rent, management fees and air-conditioning charges and outgoings)

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

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

⁴⁴ According to the Hotel Management Agreement, “Gross Operating Profit” means Total Hotel Revenue less Hotel Operating Expenses during the same period.

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

Tenancy Expiry Profile

Year	Gross area (sq.ft.)	% of Total	Monthly Rent (HK\$)	% of Total	No. of Tenancy	% of Total
Year Ending 2020	1,800	100%	140,000	100%	1	100%
Total	1,800	100%	140,000	100%	1	100%

Tenancy Duration Profile

Tenancy Duration	Gross area (sq.ft.)	% of Total	Monthly Rent (HK\$)	% of Total	No. of Tenancy	% of Total
More than 2 years and up to 3 years	1,800	100%	140,000	100%	1	100%
Total	1,800	100%	140,000	100%	1	100%

Latest Expiry Date	:	19 January 2020
Rent-free Period	:	2 months
Option to Renew	:	The Tenant has an option to renew for a further term of 3 years.
Summary of Terms	:	The Landlord ⁴⁶ and/or another responsible party is/are to be responsible for the structural and external repairs while the Tenant is to be responsible for the internal repairs of the Property. The rates, government rent, taxes are payable by the Tenant.

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\$446,921 (All tenancies are inclusive of air-conditioning charges and management fees, but exclusive of rates.)

⁴⁶ All tenancy agreements are entered into by Sonnix Limited as Landlord.

Tenancy Expiry Profile

Year	Gross area (sq.ft.)	% of Total	Monthly Rent (HK\$)	% of Total	No. of Tenancy	% of Total
Year Ending 2020	8,304	100%	446,921	100%	3	100%
Total	8,304	100%	446,921	100%	3	100%

Tenancy Duration Profile

Tenancy Duration	Gross area (sq.ft.)	% of Total	Monthly Rent (HK\$)	% of Total	No. of Tenancy	% of Total
More than 3 years and up to 4 years	8,304	100%	446,921	100%	3	100%
Total	8,304	100%	446,921	100%	3	100%

Latest Expiry Date	:	30 April 2020
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 ⁴⁷ and/or another responsible party is/are to be responsible for the structural and external repairs while the Tenant is to be responsible for the internal repairs of the Property.

5. ESTIMATED NET PROPERTY YIELD⁴⁸

2.6%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2017

HK\$877,000,000 (Eight Hundred and Seventy Seven Million Hong Kong dollars)

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

⁴⁸ The Estimated Net Property Yield of ICWC is derived from the net income receivable in 2017 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.

Site Area ⁴⁹	:	472 sq. m.
Gross Floor Area	:	7,197 sq. m.
Covered Floor Area	:	Approx. 9,600 sq. m.
Town Planning Zoning	:	“Commercial” zone under Draft Sai Ying Pun & Sheung Wan Outline Zoning Plan No. S/H3/31 dated 15 December 2017.

Hotel Guestroom Configuration

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

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

⁴⁹ The site area excludes an area of 32.803 sq.m. to be reserved for lane pattern but includes an area of 24.398 sq.m. to be surrendered for road widening.

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 2017

Occupancy Rate : 94%

Average Room Rate : HK\$864

Lease Agreement

Lessor : Tristan Limited

Lessee : Favour Link International Limited

Term of Lease Agreement : Commencing from the Effective Date⁵⁰ and expiring on 31 December 2019

Rental : The annual rent receivable in respect of the first, second and third years of the lease term are 5.00%, 5.25% and 5.50% respectively of HK\$1,580 million.

The rent receivable in respect of the remaining lease term shall be determined based on annual market rental reviews performed by independent professional property valuer who will be jointly appointed by the Lessor and the Lessee.

According to the 2017 and 2018 Market Rental Package Determinations, Base Rent for ICSW for the lease year of 2017 and 2018 are HK\$36,500,000 (pro-rated) and HK\$42,000,000 respectively; and the Variable Rent is 50% of the excess of the NPI apportioned according to the number of days for the lease year.

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

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	From the Effective Date ⁵¹ , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of the tenth anniversary of the Effective Date.
Base Fee	:	One percent (1%) of Gross Revenue ⁵² (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term)
Incentive Fee	:	One percent (1%) of the excess of the Adjusted GOP ⁵³ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term)

4. LICENCE SCHEDULES

Licences for Mobile Radio Equipment, Integrated Radio Systems and Others

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

5. ESTIMATED NET PROPERTY YIELD⁵⁴

3.0%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2017

HK\$1,560,000,000 (One Billion Five Hundred and Sixty Million Hong Kong dollars)

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

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

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

⁵⁴ The Estimated Net Property Yield of ICSW is derived from the rent receivable in 2017 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.

Site Area	:	457 sq. m.
Gross Floor Area	:	6,849 sq. m.
Covered Floor Area	:	Approx. 9,400 sq. m.
Town Planning Zoning	:	“Commercial/Residential” zone under Draft North Point Outline Zoning Plan No. S/H8/25 dated 5 August 2016.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iRoom	28	iSelect Premier	36
iSelect	130	iPlus Premier	36
iPlus	108		
		Total	338

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

Other Facilities

Other facilities include a club lounge and a gymnasium.

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 2017

Occupancy Rate	:	90%
Average Room Rate	:	HK\$647

Lease Agreement

Lessor	:	Wise Decade Investments Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Effective Date ⁵⁵ and expiring on 31 December 2019
Rental	:	The annual rent receivable in respect of the first, second and third years of the lease term are 5.00%, 5.25% and 5.50% respectively of HK\$1,650 million.

The rent receivable in respect of the remaining lease term shall be determined based on annual market rental reviews performed by independent professional property valuer who will be jointly appointed by the Lessor and the Lessee.

According to the 2017 and 2018 Market Rental Package Determinations, Base Rent for ICFH for the lease year of 2017 and 2018 are HK\$17,610,000 (pro-rated) and HK\$42,390,000 respectively; and the Variable Rent is 50% of the excess of the NPI apportioned according to the number of days for the lease year.

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

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	From the Effective Date ⁵⁶ , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of the tenth anniversary of the Effective Date.
Base Fee	:	One percent (1%) of Gross Revenue ⁵⁷ (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 ⁵⁸ 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

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

5. ESTIMATED NET PROPERTY YIELD⁵⁹

4.4%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2017

HK\$1,625,000,000 (One Billion Six Hundred and Twenty Five Million Hong Kong dollars)

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

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

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

⁵⁹ The Estimated Net Property Yield of ICFH is derived from the rent receivable in 2017 divided by the Market Value.

Property 9

ICLUB MA TAU WAI HOTEL

8 Ha Heung Road
(formerly known as 8, 8A, 10, 10A, 12 and 12A Ha Heung Road)
Kowloon
Hong Kong

Section C of Kowloon Inland Lot No. 4148

1. PROPERTY DESCRIPTION

iclub Ma Tau Wai Hotel ("ICMTW") is a 22-storey building including 1 basement floor completed in 2017. It provides a total of 340 guestrooms accommodated on 5th to 23rd Floors of the building (4th, 13th and 14th Floors are omitted). Carparking spaces are available on the basement and ground floor. Plant rooms are on 1st Floor. Communal podium garden is situated on 2nd Floor. Hotel back of house, plant rooms and other ancillary accommodation are on 3rd Floor.

ICMTW is located at Ma Tau Wai, a traditional residential area that is situated close to Kowloon City and the new Kai Tak development. The immediate locality is predominantly residential buildings.

Site Area	:	700 sq. m.
Gross Floor Area⁶⁰	:	6,298 sq. m.
Covered Floor Area	:	Approx. 9,490 sq. m.
Town Planning Zoning	:	"Residential (Group A)" zone under Approved Ma Tau Kok Outline Zoning Plan No. S/K10/22 dated 15 April 2016.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iSelect	48	iPlus Premier	60
iPlus	112	iBusiness Premier	72
iSelect Premier	48		
		Total	340

Note: The room sizes range from 11 sq.m. to 16 sq.m.

Other Facilities

Other facilities include a lounge, computer area and fitness area.

⁶⁰ The Gross Floor Area excludes 158.11 sq.m. lift exempted area.

2. OWNERSHIP AND TENURE

Registered Owner	:	Land Crown International Limited
Lease Term	:	Section C of Kowloon Inland Lot No. 4148 is held under a Conditions of Sale No. 3945 for a term of 75 years commencing from 26 June 1939 and renewable for a further term of 75 years.
Government Rent	:	3% of the rateable value of the Property

Major Registered Encumbrances

- Occupation Permit No. KN52/2016 (OP), dated 23 November 2016, registered vide Memorial No. 17091300940028.
- Lease Agreement for iclub Ma Tau Wai Hotel in favour of Favour Link International Limited, dated 4 September 2017, registered vide Memorial No. 17091300940063.
- Debenture and Mortgage (Constituting Fixed and Floating Charges) in favour of United Overseas Bank Limited, dated 4 September 2017, registered vide Memorial No. 17091802150273.

3. HOTEL OPERATION

Hotel Performance in 2017

Occupancy Rate	:	88%
Average Room Rate	:	HK\$621

Lease Agreement

Lessor	:	Land Crown International Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Effective Date ⁶¹ and expiring on the date immediately preceding the fifth anniversary of the date of the Lease Agreement.

⁶¹ According to the Lease Agreement, "Effective Date" means 4 September 2017.

Rental : The annual rent receivable in respect of the first, second, third, fourth and fifth years of the lease term are 4.00%, 4.25%, 4.50%, 4.75% and 5.00% respectively of HK\$1,360 million.

The rent receivable in respect of the remaining lease term shall be determined based on annual market rental reviews to be conducted by independent professional property valuer who will be jointly appointed by the Lessor and the Lessee.

Hotel Management Agreement (“HMA”)

Hotel Manager : Regal Hotels International Limited

Term of HMA : From the Effective Date⁶², and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of the tenth anniversary of the Effective Date.

Base Fee : One percent (1%) of Gross Revenue⁶³ (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 GOP⁶⁴ 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. ESTIMATED NET PROPERTY YIELD⁶⁵

3.7%

5. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2017

HK\$1,470,000,000 (One Billion Four Hundred and Seventy Million Hong Kong dollars)

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

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

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

⁶⁵ The Estimated Net Property Yield of ICMTW is derived from the annualized fixed rent receivable in 2017 divided by the Market Value.

HOTEL MARKET OVERVIEW

Over 2017, Hong Kong recorded its first increase of visitor arrivals in the past three years. Hong Kong received a total of 58.5 million visitor arrivals, representing a single digit year-on-year (YoY) increase of 3.2%; Mainland Chinese visitors continue to be the largest source market, contributing 76% visitor arrivals. Mainland Chinese visitor arrivals showed an uptick from early 2017 onwards⁶⁶. In 2017, 44.4 million arrivals from Mainland China were recorded, representing a growth of 3.9% compared to the whole year of 2016. There were also further growth in the short haul markets such as Philippines (13.1% YoY), Japan (12.6% YoY) and South Korea (6.8% YoY) while long haul markets registered a slight decline of 0.3% compared to the same period in the previous year.

Overnight visitor arrivals in 2017 have seen an increase of 5.0% YoY to 27.9 million visitors. In terms of country/territory, Mainland China visitors saw a YoY 6.7% growth to 18.5 million. Short haul markets have reported an increase of 3.0% to 6.0 million visitors. The long haul markets have recorded a slight decrease YoY of 0.1%, to 3.3 million. 41.7% of Mainland China visitors stayed overnight in Hong Kong while 64.4% of the visitors from other short haul markets stayed overnight⁶⁷.

The Hong Kong hotel industry remained relatively stable during 2017. The performance of High Tariff A Hotels finished 2017 with an average rate of HK\$2,068 at an average occupancy of 86%, a slight increase from 84% in 2016. High Tariff B and Medium Tariff hotels noticed slight increases in average rates to HK\$1,068 and HK\$729, and recorded occupancy rates at 90% and 91% respectively. However, as a whole hotel room rate was kept at HK\$1,288 per night, but with an increased occupancy of 2 percentage points to 89% for the whole year of 2017⁶⁸.

Outlook of Hong Kong's hospitality industry remains optimistic. The Government will implement four relevant measures and initiatives to press ahead with the development of Hong Kong into a world-class premier tourism destination⁶⁹.

A wide range of diversified tourist attractions enhancing Hong Kong's overall desirability as a premier tourist destination are under process, notably the completion of Tai Shue Wan Water World at Mid 2019 at Ocean Park. The ongoing extensions of Disneyland are expected to further draw international leisure travellers to Hong Kong. In 2017, the Kai Tak Cruise Terminal welcomed 16 cruise lines and a total calls of 190 which doubled that of 2016⁷⁰.

Hong Kong's economic development benefits from various regional economic policies and strategies. The Belt and Road Initiative is a new engine for Hong Kong's economic development. Hong Kong also has basically completed the drafting of the development plan for a city cluster in the Guangdong-Hong Kong-Macao Bay Area ("Bay Area"). Hong Kong's excellent geographical location, low risk, ease of doing business and 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.

⁶⁶ Source: HKTB, Visitor Arrival Statistics - December 2017.

⁶⁷ Source: HKTB, Visitor Arrival Statistics - December 2017.

⁶⁸ Source: HKTB, Hotel Room Occupancy Report - December 2017.

⁶⁹ Source: Information Services Department (ISD), 2017 Policy Address.

⁷⁰ Source: Kai Tak Cruise Terminal, <http://www.kaitakcruiseterminal.com.hk/highlights/>

The Government is also committed to enhancing the appeal of Hong Kong as an ideal MICE (Meetings, Incentive travels, Conventions and Exhibitions) destination in Asia. During year 2017, a total of 1.9 million overnight MICE visitors came to Hong Kong, representing a YoY 1.9% growth⁷¹. As per the 2017 Policy Address, a new convention and exhibition venue will be developed by demolishing and redeveloping the three government buildings next to the Hong Kong Convention and Exhibition Centre (HKCEC) in Wan Chai North. The new venue can be connected to and integrated with the existing HKCEC. Based on an initial estimate, the project will add about 23,000 sq. m. of connected convention and exhibition facilities. Hotel facilities, which complement the convention and exhibition activities and Grade A office use will also be built on top of the new convention and exhibition venue⁷².

A number of Hong Kong's large-scale infrastructure projects will be completed in the coming years. The Guangzhou–Shenzhen–Hong Kong Express Rail Link (XRL) is planned to be completed in the third quarter of 2018. The journey times between Hong Kong and Shenzhen (North) will be shorten to 23 minutes and Guangzhou (South) to 48 minutes⁷³. The main bridge of Hong Kong–Zhuhai–Macao Bridge (HZMB) was completed in December 2017⁷⁴. The enhancement of the connectivity to nearby major cities in mainland China, especially within the Pearl River Delta (PRD) region, will stimulate the growth of the tourism industry.

An addition of 10 hotels with 3,188 rooms contributed to the supply of hotel rooms in the first three quarters of 2017. With completions of new hotels in the pipeline, Hong Kong is expected to have 7,317 more hotel rooms, reaching a total of 85,373 rooms in 2018. By 2019, the total number of rooms is expected to reach 87,871⁷⁵. With the continued recovery of the tourism industry, we expect the occupancy rates will stay at high level in 2018.

⁷¹ Source: MEHK, Statistics on MICE Arrivals 2017, Dec 2017.

⁷² Source: Information Services Department (ISD), 2017 Policy Address.

⁷³ Source: MTR, <http://www.expressrailink.hk/en/project-details/key-information.html>

⁷⁴ Source: Construction of Main Bridge Completed, <http://www.hzmb.org>

⁷⁵ Source: HKTB, Hotel Supply Situation – as at September 2017.

1. REGAL AIRPORT HOTEL

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

In 2017, the airport's throughput for passengers and cargo reached 72.9 million (an increase of 3.3% YoY) and 4.9 million tons (an increase of 9.2% YoY), respectively⁷⁶. The airport is connected to over 220 destinations, including 50 in the Mainland⁷⁷. The Three-Runway System (3RS) expansion project which has begun in 1 August 2016 at HKIA is expected to further strengthen its competitiveness within the region, and in turn benefit RAH in the long term; with the 3RS, HKIA will be able to serve 30 million additional passengers annually, as forecasted in the HKIA Master Plan 2030.

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

The majority of the room demand at RAH is generated by business travellers, mainly attributable to its strategic location and proximity to the AsiaWorld Expo. In 2017, business travellers and airline crews accounted for 52.6% and 21.9% of the total room nights accommodated at RAH. The leisure segment at RAH accounted for 23.5%, and additionally, there were special demands generated by emergency layovers due to delays/cancellations of flights (2.0%).

The geographical customer market segmentation at RAH is in line with overall market segmentation of total international visitor arrivals to HKIA. The main market segmentations at RAH were made up of Asian visitors excluding mainland China (39.0%) and mainland China visitors (33.2%) in 2017. The guests from the Americas, Europe and other regions represented 27.8% of the total demand.

Currently, the main competition is derived from the two existing hotels nearby, namely the Novotel Citygate Hong Kong in Tung Chung and the Hong Kong SkyCity Marriott Hotel adjacent to the AsiaWorld Expo. The extension project of the Hong Kong SkyCity Marriott Hotel with 342 room is expected to complete in 2020. Nevertheless, RAH is considered to have competitive advantages over the competitors due to its strategic location with its proximity to the passenger terminals. Besides, the competition against the two hotels is expected to be minimal as all hotels have different market positioning and pricing strategies. While there is a proposed 1,208-room hotel scheduled to be completed in 2020 near the HKIA Terminal two and the AsiaWorld-Expo, the competition is expected to be limited⁷⁸.

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 2018.

⁷⁶ Source: Hong Kong International Airport, "Provisional Civil International Air Traffic Statistics at HKIA December 2017".

⁷⁷ Source: Hong Kong International Airport, "Facts & Figures".

⁷⁸ Source: HKTB, Hotel Supply Situation – as at September 2017.

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 Sogo Department Store, Times Square, Fashion Walk, Lee Gardens, as well as a variety of restaurant facilities. 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 (69.2% in 2017) compared to leisure travellers (30.8%), 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 including Wan Chai, Admiralty and Central which attract business visitors to stay at the hotel.

The geographical customer market segmentation at RHK was mainly composed of mainland Chinese visitors (53.2%) and Asian visitors excluding mainland China (33.7%) in 2017. The guests from the Americas, Europe and other regions represented 13.1% of the total demand.

Causeway Bay welcomed the opening of the 91-room Little Tai Hang Hotel and Serviced Apartments located at 98 Tung Lo Wan Road, Causeway Bay, in the first quarter of 2017, and there are no further supplies scheduled in 2018 and 2019⁷⁹. The newly opened hotel is unlikely to compete with RHK due to its location and branding. Furthermore, high demand for hotel rooms in Causeway Bay area is likely to absorb the additional 91 rooms easily.

Based on the anticipated recovery of the 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 2018.

⁷⁹ Source: HKTB, Hotel Supply Situation – as at September 2017.

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 second highest proportion of business travellers among five Initial Hotels at 64.4% in 2017 following RHK, 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 35.1% of the total guests.

The geographical customer market segmentation at RKH is composed of mainly mainland Chinese visitors (40.0%) and Asian visitors excluding mainland China (43.5%) in 2017. Visitors from the Americas, Europe and other regions represented 16.5% of the total demand.

No new hotel was completed in Tsim Sha Tsui in 2017. While there are two new hotels with a total of 685 rooms at 18-24 Salisbury Road scheduled to open in 2018⁸⁰, they are unlikely to have significant impact nor compete directly against RKH due to differences in scale of operation, positioning and target markets. Furthermore, the high demand for hotel rooms in the Tsim Sha Tsui area is likely to absorb the additional room supply easily.

Based on the anticipated recovery of the 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 2018.

⁸⁰ Source: HKTB, Hotel Supply Situation – as at September 2017.

4. REGAL ORIENTAL HOTEL

Regal Oriental Hotel (ROH) is located in Kowloon City, opposite to the vibrant Kai Tak Development Area (KTDA). 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, the 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 Kai Tak Development covers over 320 hectares of land which spans over the ex-airport site together with the adjoining hinterland districts of Wong Tai Sin, Kwun Tong and Kowloon City⁸¹. With a development mix of community, housing, business, tourism and infrastructural uses, it is set to revitalise the surrounding areas. The Government has completed a review to further increase the development intensity and enhance the site planning of the KTDA. A total of 16,000 additional residential flats and about 400,000 sq.m. of commercial floor area will be added in two phases⁸².

The Cruise Terminal is another attraction in the area. In 2017, the Kai Tak Cruise Terminal welcomed 16 cruise lines and a total calls of 190 which was double of that of 2016⁸³. According to the 2017 Policy Address, the Government will launch the commercial site in KTDA⁸⁴, which is expected to fulfil its comprehensive development and further strengthen its competitiveness.

Furthermore, future development and extension of the Shatin to Central Link⁸⁵ 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 47.6% business travellers and 52.4% leisure travellers. The geographical customer market segmentation at ROH is mainly composed of Asian visitors excluding mainland China (47.1%) and mainland Chinese visitors (43.2%) in 2017. Visitors from the Americas, Europe and other regions represented 9.7% of the total demand.

In addition to the 546-room Kerry Hotel Hong Kong at 38 Hung Luen Road which opened in April 2017, the 54-room The I House (Kowloon South) at 179 & 181 Bulkeley Street, Hung Hom is slated to open in 2018 and the 340-room iclub Ma Tau Wai Hotel at 8 Ha Heung Road, To Kwa Wan opened in 2017⁸⁶. The competition against the three hotels is expected to be minimal as all the hotels have different market positioning and pricing strategies.

Based on the anticipated recovery of the 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 2018.

⁸¹ Source: Civil Engineering and Development Department, "Overview of Kai Tak Development", www.ktd.gov.hk.

⁸² Source: Information Services Department (ISD), 2017 Policy Address.

⁸³ Source: Kai Tak Cruise Terminal, <http://www.kaitakcruiseterminal.com.hk/highlights/>

⁸⁴ Source: Information Services Department (ISD), 2017 Policy Address.

⁸⁵ Source: MTR's website, www.mtr.com.hk.

⁸⁶ Source: HKTb, Hotel Supply Situation – as at September 2017.

5. REGAL RIVERSIDE 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 Link⁸⁷ is expected to improve the accessibility of RRH to other districts of Hong Kong.

Shopping and dining facilities are located at the New Town Plaza nearby. 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 Asian visitors excluding mainland China (53.6%) and mainland Chinese visitors (38.8%). Visitors from the Americas, Europe and other regions represented 7.6% of the total demand.

Notably, the proportion of business travellers at RRH has been growing in recent years, mainly attributable to the new office building supplies at the Shek Mun Station in the vicinity; in 2016, the demand profile between business travellers and leisure travellers was 57.0% and 42.7%. As of 2017, the business travellers accounted for 63.3% of the total demand, whereas leisure travellers accounted for 35.4%.

No new hotels were completed in Sha Tin in 2017. A proposed hotel providing 616 rooms located at the junction of Siu Lek Yuen Road, Yuen Hong Street & Yuen Shun Circuits is scheduled to open in 2019⁸⁸.

Based on the anticipated recovery of the 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 2018.

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

⁸⁸ Source: HKTB, Hotel Supply Situation – as at September 2017.

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, 93.7% of the room night demand at ICWC was generated by business travellers in 2017.

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. Due to the relevant high demand of business travellers, leisure travellers only accounted for 6.3% of the total accommodated room nights in 2017.

The geographical customer market segmentation at ICWC was mainly composed of Asian visitors excluding mainland China (46.4%) and mainland Chinese visitors (25.4%) in 2017. The guests from the Americas, Europe and other regions represented 28.2% of the total demand.

The Emperor Hotel with 299 rooms at 373 Queens' Road East opened in the fourth quarter of 2017. The location and the target group of the new hotel are 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. Between 2018 and 2020, potential competition may arise from openings of St. Regis Hong Kong at 26 Harbour Road with a supply of 129 rooms by the end of 2019, a Proposed Hotel at 25 - 27 Morrison Hill Road with a supply of 122 rooms by August 2019 and a Proposed Hotel at 10 - 12 Stewart Road and 239-243 Jaffe Road with a supply of 181 rooms by the end of 2020⁸⁹. However, brands and positioning of the last two Proposed Hotels are yet to be announced. In addition, Hopewell Centre II, has recently been planned to be developed into a conference hotel with approximately 1,024 guest rooms. It is targeted to complete in 2021.

ICWC will continuously benefit from Hong Kong's renowned exhibition venue and also its proximity to HKCEC. 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 of the 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 2018.

⁸⁹ Source: HKTB, "Hotel Supply Situation – as at September 2017".

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 walking distance away from the Hong Kong-Macau Ferry terminal which provides ferry and helicopter services connecting with Macau and ferry services to a number of cities in southern China including Zhongshan, Zhuhai, Panyu in Guangzhou, and Shekou in Shenzhen. Also, the hotel is within 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 64.9% business travellers and 35.1% leisure travellers in 2017.

The geographical customer segmentation of ICSW in 2017 comprises 29.6% of guests from mainland China, 49.3% of guests from Asia excluding mainland China and 21.1% from other regions including Europe, the Americas, etc.

The hotel with 148 rooms at No. 263 Hollywood Road Central was rebranded to "Travelodge" from "Butterfly on Hollywood". There are no other new hotels scheduled for completion between 2018 and 2019 in the area. Located near Central business area with good-quality office developments, 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 of the 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 2018.

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 guest mix profile with 60.1% business guests and 39.9% leisure guests in 2017.

In terms of geographical segmentation in 2017, ICFH guest profile was composed of 46.8% of guests from Asia excluding mainland China, 38.2% of guests from mainland China, and 15.0% of guests from other regions.

The next opening will be an 840-room Proposed Hotel at Oil Street and the 671-room Hotel VIC at North Point Estate Lane in 2018⁹⁰. These future hotels are unlikely to compete with ICFH due to the scale of operation and different targeted customer mix.

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 of the 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 2018.

⁹⁰ Source: HKTB, Hotel Supply Situation – as at September 2017.

9. ICLUB MA TAU WAI HOTEL

iclub Ma Tau Wai Hotel (ICMTW) is located in To Kwa Wan, which is a residential area traditionally. The major development in the vicinity of ICMTW is the Kai Tak Development which is a part of the government's initiative of Energizing Kowloon East.

The Kai Tak Development covers over 320 hectares of land which spans over the ex-airport site together with the adjoining hinterland districts of Wong Tai Sin, Kwun Tong and Kowloon City⁹¹. With a development mix of community, housing, business, tourism and infrastructural uses, it is set to revitalise the surrounding areas. The Government has completed a review to further increase the development intensity and enhance the site planning of the Kai Tak Development Area ("KTDA"). A total of 16,000 additional residential flats and approximately 400,000 sq.m. of commercial floor area will be added in two phases⁹². Four hotel sites are designated for hotel use.

The Cruise Terminal is another attraction in the area. In 2017, the Kai Tak Cruise Terminal welcomed 16 cruise lines and a total calls of 190 which was double of that of 2016⁹³. According to the 2017 Policy Address, the Government will launch the commercial site in KTDA⁹⁴, which is expected to fulfil its comprehensive development and further strengthen its competitiveness.

The MTR Shatin to Central Link is under construction and the commissioning date of the Tai Wai to Hung Hom Section is expected in 2019. Under the existing alignment planning, ICMTW will be within 10 minutes walking distance to the proposed To Kwa Wan Station. Therefore the transportation and the accessibility of ICMTW will be further enhanced⁹⁵.

The demand profile of ICMTW was composed of 55.8% business travellers and 44.2% leisure travellers in 2017. In terms of geographical segmentation in 2017, ICMTW guest profile was composed of 49.4% of guests from Asia excluding mainland China, 36.5% of guests from mainland China, and 14.1% of guests from other regions.

It is expected the total number of hotels in Kowloon City will reach 18 in 2018, with 7,966 rooms⁹⁶. In addition to the 546-room Kerry Hotel Hong Kong at 38 Hung Luen Road which opened in April 2017, the 54-room The I House (Kowloon South) at 179 & 181 Bulkeley Street, Hung Hom started operation in the 4th quarter of 2017. The competition against the two hotels is expected to be minimal as both hotels have different market positioning and pricing strategies from ICMTW. A proposed hotel with 99 rooms at 103-107 Tam Kung Road is planned to open at Mid 2018. This may pose limited effect to ICMTW due to different development scale.

ICMTW 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 of the 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 ICMTW will achieve positive growth in both occupancy and average room rates in 2018.

⁹¹ Source: Civil Engineering and Development Department, "Overview of Kai Tak Development", www.ktd.gov.hk.

⁹² Source: Information Services Department (ISD), 2017 Policy Address.

⁹³ Source: Kai Tak Cruise Terminal, <http://www.kaitakcruiseterminal.com.hk/highlights/>

⁹⁴ Source: Information Services Department (ISD), 2017 Policy Address.

⁹⁵ Source: MTR's website, www.mtr-shatincentrallink.hk.

⁹⁶ Source: HKTB, Hotel Supply Situation - as at September 2017.

SUMMARY OF PROPERTY PORTFOLIO

As at 31st December, 2017

	Description	Use	Lease	Gross Floor Area (sq.m.)	Approx. Covered Floor Area (sq.m.)	Percentage interest attributable to Regal REIT
(1)	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	Hotel	Medium term	71,988	83,400	100
(2)	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	Hotel	Long term	25,090	32,000	100
(3)	Regal Kowloon Hotel 71 Mody Road Tsimshatsui Kowloon Hong Kong	Hotel	Long term	31,746	43,500	100
(4)	Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and the whole of 1/F Po Sing Court 21-25 Shek Ku Lung Road 40-42 Sa Po Road and 15-29 Carpenter Road Kowloon City Kowloon Hong Kong	Hotel	Medium term	22,601	27,300	100

	Description	Use	Lease	Gross Floor Area <i>(sq.m.)</i>	Approx. Covered Floor Area <i>(sq.m.)</i>	Percentage interest attributable to Regal REIT
(5)	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin, New Territories Hong Kong	Hotel	Medium term	59,668	69,100	100
(6)	iclub Wan Chai Hotel Shops A, B and C on G/F, Flat Roof on 3/F, Whole of 5-12/F, 15-23/F and 25-29/F Eastern and Western Elevations of External Walls Architectural Feature at Roof Top and Upper Roof 211 Johnston Road Wan Chai Hong Kong	Hotel/ commercial	Long term	5,326	5,530	100
(7)	iclub Sheung Wan Hotel 138 Bonham Strand Sheung Wan Hong Kong	Hotel	Long term	7,197	9,600	100
(8)	iclub Fortress Hill Hotel 18 Merlin Street North Point Hong Kong	Hotel	Long term	6,849	9,400	100
(9)	iclub Ma Tau Wai Hotel 8 Ha Heung Road Kowloon Hong Kong	Hotel	Long term	6,298	9,490	100

SUMMARY FINANCIAL INFORMATION

The summary of the results, the distributions and the assets and liabilities of the Group, as extracted from the published audited consolidated financial statements, is set out below.

Summary of the results and distributions

	Year ended 31st December, 2017 HK\$'000	Year ended 31st December, 2016 HK\$'000	Year ended 31st December, 2015 HK\$'000	Year ended 31st December, 2014 HK\$'000	Year ended 31st December, 2013 HK\$'000
Gross rental and hotel revenue	957,773	973,479	1,001,720	1,000,711	866,962
Net rental and hotel income	927,141	943,887	971,594	971,371	837,106
Profit/(loss) before tax and distributions to Unitholders	2,594,515	684,694	(1,406,775)	357,753	436,293
Profit/(loss) for the year, before distributions to Unitholders	2,488,325	563,980	(1,527,821)	238,454	342,558
Distributable income for the year attributable to Unitholders	473,038	511,362	550,334	532,924	497,076
Total distributions per Unit	HK\$0.145	HK\$0.154	HK\$0.154	HK\$0.162	HK\$0.150

Summary of the assets and liabilities

	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
Non-current assets:					
Property, plant and equipment	656,000	590,000	592,000	691,000	700,000
Investment properties	25,136,000	21,632,000	21,480,000	23,428,000	20,380,000
Other non-current assets	—	—	—	—	948,000
Current assets	166,305	155,334	118,418	168,502	1,174,951
Total assets	25,958,305	22,377,334	22,190,418	24,287,502	23,202,951
Current liabilities	2,990,055	330,351	220,888	234,870	335,624
Non-current liabilities	7,483,592	8,609,039	8,598,341	8,550,062	7,093,191
Total liabilities	10,473,647	8,939,390	8,819,229	8,784,932	7,428,815
Net assets attributable to Unitholders	15,484,658	13,437,944	13,371,189	15,502,570	15,774,136
Net asset value per Unit attributable to Unitholders	HK\$4.754	HK\$4.125	HK\$4.105	HK\$4.759	HK\$4.843

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