



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)

2014 ANNUAL REPORT



Managed by



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

2	Corporate Information
3	Chairman's Statement
6	Properties Portfolio
15	Report of the REIT Manager
35	Director and Executive Officer Profiles
39	Corporate Governance Report
50	Connected Party Transactions
60	Disclosure of Interests
62	Audited Financial Statements
62	Consolidated Statement of Profit or Loss
63	Consolidated Statement of Comprehensive Income
64	Consolidated Statement of Financial Position
66	Consolidated Statement of Changes in Net Assets
67	Distribution Statement
69	Consolidated Statement of Cash Flows
71	Notes to Consolidated Financial Statements
114	Independent Auditors' Report
116	Performance Table
117	Trustee's Report
118	Valuation Report
170	Summary of Properties Portfolio
172	Summary Financial Information

CORPORATE INFORMATION

MANAGER OF REGAL REIT

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

BOARD OF DIRECTORS OF THE REIT MANAGER

Non-executive Directors

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

Executive Directors

Johnny Chen Sing Hung
Simon Lam Man Lim

Independent Non-executive Directors

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

AUDIT COMMITTEE OF THE REIT MANAGER

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

DISCLOSURE COMMITTEE OF THE REIT MANAGER

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

RESPONSIBLE OFFICERS OF THE REIT MANAGER

Johnny Chen Sing Hung
Simon Lam Man Lim
Yip Yat Wa

SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

TRUSTEE OF REGAL REIT

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

AUDITORS

Ernst & Young

PRINCIPAL VALUER

Savills Valuation and Professional Services Limited

PRINCIPAL BANKERS

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

LEGAL ADVISERS

Baker & McKenzie

UNIT REGISTRAR

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

WEBSITE

www.RegalREIT.com

CHAIRMAN'S STATEMENT



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 2014 Annual Report of Regal Real Estate Investment Trust.

For the year ended 31st December, 2014, Regal REIT achieved a consolidated net profit before distributions to Unitholders of HK\$238.5 million, as compared to HK\$342.6 million recorded for the year 2013. The decrease in the consolidated net profit reported for 2014 was attributable to an accounting loss of HK\$266.9 million arising mainly from the fair value changes in the appraised values of the Initial Hotels portfolio between the two year end dates, having taken into account the amount of capital expenditure incurred. If the effects of these fair value changes are excluded, the core profit before distributions to Unitholders for the year under review would amount to HK\$505.4 million, representing an increase of 16.6% over the corresponding amount of HK\$433.3 million for the year 2013.

Benefitting from the increased rental income, including the new rental receipts from the two latest iclub Hotels in Sheung Wan and Fortress Hill acquired in 2014, the total distributable income for the year under review amounted to HK\$532.9 million, which was an increase of 7.2% over the HK\$497.1 million reported last year. The Board of Directors of the REIT Manager has resolved to declare a final distribution of HK\$0.088 per Unit for the year ended 31st December, 2014. Together with the interim distribution of HK\$0.074 per Unit paid, this will bring the total distributions per Unit for 2014 to HK\$0.162, an increase of 8.0% over the HK\$0.150 per Unit distributed for 2013. Total distributions for the year, including both the interim and final distributions, will amount to HK\$527.7 million and represent a payout ratio of 99.0% of the total distributable income for 2014.

During the year under review, the worldwide economy showed signs of divergence. In late October 2014, the US Federal Reserve officially ended the “QE3”, in the light of a gradual recovery in the US economy; while the economies in the Eurozone and Japan remained stagnant. In the People’s Republic of China, Gross Domestic Product (GDP) increased by 7.4% year-on-year, representing a drop of 0.3% as compared to the preceding year. Meanwhile, the GDP of Hong Kong increased moderately by 2.3%, but reflecting a negative growth of about 0.6% as compared to 2013.

In 2014, visitor arrivals to Hong Kong surged by 12.0% year-on-year to a total of over 60.8 million, with visitors from the Mainland China accounting for more than 77% of the total count. More than half of the visitor arrivals were same-day visitors, which have no direct impact on the local hotel sector. Based on a hotel survey published by the Hong Kong Tourism Board, the average hotel occupancy rate for all the surveyed hotels in different categories for 2014 was 90%, a year-on-year increase of 1% over 2013, while the industry-wide achieved average room rate recorded a slight upward adjustment of 1.8%.

For the year under review, the five Initial Hotels in Hong Kong, which are leased to a wholly-owned subsidiary of Regal Hotels International Holdings Limited, the immediate listed holding company of Regal REIT, achieved satisfactory performance. Despite the effects of the “Occupy Central” activity from late September to mid-December 2014, the combined average occupancy rate for the Initial Hotels was maintained at 92.4% as compared to the level of 90.2% in 2013, while the average room rate enhanced by 2.6% year-on-year, both outperforming the industry average.

The total net property income generated by the five Initial Hotels for the year amounted to HK\$918.1 million, which represented an excess of HK\$175.1 million over the aggregate annual base rent of HK\$743.0 million, 50% of which was attributable to Regal REIT as variable rent. The iclub Wan Chai Hotel, which is owned and self-operated by Regal REIT, continued to enjoy strong demand and maintained virtually full occupancy for the second consecutive year, although its average room rate was modestly down by 2.6% due to keen competition within the Wan Chai area. As previously reported, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel were acquired in February and July 2014, respectively. They have also been leased to the lessee of the Initial Hotels and generated additional aggregate cash rental income of HK\$105.6 million for Regal REIT during the year.

These new acquisitions have increased the coverage of Regal REIT’s properties portfolio on select-service hotels in strategic locations, enabling it to capture a wider range of business and leisure visitors. Regal REIT now owns a total of eight operating hotels in Hong Kong, boosting an aggregate of 4,569 guestrooms and suites.

The rental review for the leasing of the five Initial Hotels for 2015 was completed in August 2014. The aggregate annual base rent for 2015 has been determined at HK\$763.0 million, reflecting a moderate increase of 2.7% over the annual base rent of HK\$743.0 million for 2014, with variable rent continuing to be based on 50% sharing of the excess of the aggregate net property income of the Initial Hotels over the aggregate base rent.

The existing leases of the five Initial Hotels are due to expire on 31st December, 2015. To ensure the stability of the main revenue stream, Regal REIT has recently entered into various conditional supplemental agreements with the lessee, essentially to extend the lease terms to 31st December, 2020, with the market rental packages for the extended term continuing to be determined annually by a jointly appointed independent professional property valuer. These lease extensions together with the other lease related matters are subject to approval by the independent Unitholders at an Extraordinary General Meeting to be held on 14th April, 2015. Detailed information regarding, among others, the proposed lease extension is contained in the announcement and the circular to the Unitholders, both dated 13th March, 2015.

The amendments to the Code on Real Estate Investment Trusts proposed by the Securities and Futures Commission, which will allow REITs in Hong Kong to undertake property development activities and to invest in certain financial instruments subject to prescribed thresholds and control measures, became effective from 29th August, 2014. Accordingly, the REIT Manager has proposed for approval by the Unitholders, at the same Extraordinary General Meeting, corresponding changes to the trust deed of Regal REIT, which will provide flexibility to Regal REIT with an expanded investment scope in line with the amendments to the REIT Code. Details of this proposal are also included in the said circular to the Unitholders dated 13th March, 2015.

In order for the tourism industry in Hong Kong to continue to flourish, the support from the Hong Kong Government and its continuing commitment to invest in infrastructural developments are most crucial. In addition to the projects under construction, such as the Hong Kong-Zhuhai-Macao Bridge and the 26-km long Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link which promote expedient connections with Macao and the Mainland, the Government is expanding the local mass transportation railway network by building the West Island Line, the South Island Line and the Shatin to Central Link and has just approved the construction of a third runway at the Hong Kong International Airport. The Government is also carrying out infrastructure work at the former Kai Tak airport area to tie in with the development of the "hotel belt" adjacent to the Kai Tak Cruise Terminal. At the same time, both theme parks in Hong Kong, Disneyland and Ocean Park, are pressing ahead with expansion plans. All these infrastructural and tourism developments will have significant and positive contributions to the tourism and hospitality sectors in Hong Kong.

The Group is hopeful that the Hong Kong Government will continue to commit sufficient resources to enhance and upgrade its infrastructural facilities, ensuring that Hong Kong will have sufficient capacities to accommodate and serve the demands of an increasing number of global and regional visitors to Hong Kong, and maintaining its long-held reputation as a much favoured shopping, sightseeing and entertainment destination. The REIT Manager is optimistic that the tourism and hotel markets in Hong Kong will continue to prosper, albeit there could be some short term ripples. 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 hotel owners in Hong Kong. The REIT Manager will actively search for new business opportunities that will generate good investment returns and long term capital appreciation.

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

Lo Yuk Sui
Chairman

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

Hong Kong, 24th March, 2015

PROPERTIES PORTFOLIO

Location of the Hotel Properties in Hong Kong



Key to Hotel Facility Icons

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



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



■ Hotel Lobby



■ Grand Ballroom



■ Rouge

REGAL AIRPORT HOTEL

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

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



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



■ Executive Club Floor Suite



■ Regal Ballroom



■ Alto 88

REGAL HONGKONG HOTEL

- Located in the heart of Causeway Bay, one of the busiest shopping and commercial districts in Hong Kong
- Within walking distance from Victoria Park, Hong Kong Stadium - home to the annual spectacular Rugby Sevens Tournament and Happy Valley Racecourse where exciting horse races are staged regularly
- Convenient location to the Hong Kong Convention and Exhibition Centre
- The Forum, meeting and conference centre, provides full range of facilities catering to the needs of business travellers, meeting and exhibition delegates
- Executive Club Floor features a collection of 82 tastefully appointed guestrooms and suites with a private lounge
- Alto 88 and Regal Palace voted as Hong Kong's Best Restaurant by Hong Kong Tatler Magazine (2015)
- Alto 88 achieved Italian Hospitality Seal by Ospitalità Italiana as certified restaurant (2014-2015)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014)
- Silver Benchmarking Certificate by EarthCheck (2014)
- Chef de Partie of Café Rivoli awarded the Golden Award of Gourmet Master Chef (2014)
- Café Rivoli awarded Best Dining-Award 2014 by Weekend Weekly 601 Dining Guide (2014)

 481

 239 sq.m.

 1993

 14

 32,000 sq.m.

 1

 25,090 sq.m.

 1

 3

 1

 1



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



■ Hotel Lobby



■ Presidential Suite



■ Versailles Ballroom

REGAL KOWLOON HOTEL

 600

 1

 1982

 353 sq.m.

 43,500 sq.m.

 12

 31,746 sq.m.

 1

 3

 1

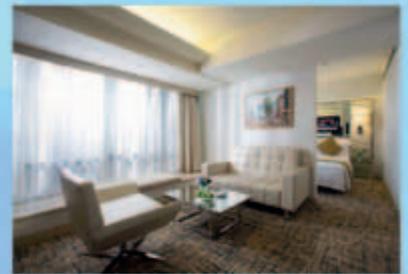
- Conveniently located in Tsimshatsui East, a commercial and tourist district
- Within walking distance from Tsim Sha Tsui ("TST"), East TST and Hung Hom MTR stations, with easy access to Mainland China
- Close to TST's major shopping centres and entertainment areas
- Close to waterfront with promenade
- Close to popular tourist attractions including the Avenue of Stars, Hong Kong Science Museum, Hong Kong Space Museum, Hong Kong Museum of Art, Hong Kong Cultural Centre, Clock Tower and the Star Ferry, etc.
- Pineapple Award by Preferred Hotel Group (2014)
- Silver Benchmarking Certificate by EarthCheck (2014)
- ISO 22000 Certification on Food Safety Management (2014)
- Business Hotel of the Year 2014 by Guangdong, Hong Kong, Macau General Manager Society (2014)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014)
- Gold Circle Award by Agoda.com (2011-2013)



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



■ Oriental Ballroom



■ Executive Suite



■ The China Coast Pub + Restaurant

REGAL ORIENTAL HOTEL

- Located in Kowloon City, facing the 328 hectares (810 acres) Kai Tak development site planned for a new urban centre including the Kai Tak Cruise Terminal opened in 2013 and related tourist facilities
- Historic landmarks such as Wong Tai Sin Temple are in the immediate vicinity
- Easy access to Kowloon Tong MTR station, Mong Kok and other business and shopping districts.
- 37 newly renovated rooms on 12/F. Executive Club Floor are tailored for busy travellers appreciating trendy ambience, décor and friendly service. Privileges include private lounge, gymnasium and business centre in a compact and cosy environment
- Silver Benchmarking Certificate by EarthCheck (2014)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014)
- Best of the Best Culinary Awards - Silver Medal for Regal Terrace by Hong Kong Tourism Board (2014)
- Bronze Benchmarking Certificate by EarthCheck (2013)
- Hong Kong Awards for Environmental Excellence, Carbon "Less" 3% Certificate by Environmental Campaign Committee (2013)
- Best Service Hotel of China of the 13th China Hotel Golden Horse Award (2013)

 494	 1
 1982	 345 sq.m.
 27,300 sq.m.	 8
 22,601 sq.m.	 1
 2	 1



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



■ Riverside Ballroom



■ Family Quadruple Room



■ Aji Bou Izakaya

REGAL RIVERSIDE HOTEL

 1,138	 474 sq.m.
 1986	 12
 69,100 sq.m.	 1
 59,668 sq.m.	 1
 8	 1
 2	 1

- Largest hotel in Shatin overlooking the Shing Mun River
- Easy access to Hong Kong Island, Kowloon and the Mainland Border
- Within walking proximity to Shatin New Town Plaza, a mega shopping complex features over 900 shops
- Close to the Hong Kong Science & Technology Parks, the Chinese University of Hong Kong and the Ten Thousand Buddhas Monastery
- Close to Sha Tin Racecourse where exciting horse races are staged regularly
- The spacious guestrooms on the Executive Club Floors are equipped with full amenities and modern facilities. In simple contemporary design, the Executive Club Lounge provides exclusive business services and meeting room that bring a truly comfortable and convenient stay
- 2009 East Asian Games Headquarters Hotel and 2008 Olympic Equestrian Events official hotel
- Gold Circle Award by Agoda.com (2014)
- Silver Benchmarking Certificate by EarthCheck (2014)
- Indoor Air Quality Certificate – Good Class (2014)
- Expedia Outstanding Performance Award (2014)
- Rakuten Travel Silver Award (2014)
- Class of Excellence Wastewi\$e Label by Hong Kong Awards for Environmental Excellence (2014)
- Hong Kong Awards for Environmental Excellence – Carbon “Less” 15% Certificate by Environmental Campaign Committee (2014)



211 Johnston Road,
Wan Chai, Hong Kong.
Tel: (852) 3669 8668
Fax: (852) 3669 8688
Email: info@wanchai.iclub-hotels.com
Website: www.iclub-hotels.com



■ iResidence



■ Sweat Zone



■ iLounge

iclub WAN CHAI HOTEL

- A contemporary select-service hotel opened in December 2009
- Conveniently and centrally located in the commercial district of Wan Chai
- Within walking distance from the Wan Chai MTR Station and the Hong Kong Convention and Exhibition Centre
- 99 chic and trendy guestrooms and suites with interactive services and innovative facilities
- Cutting-edge style and comfort for tech-savvy business travellers
- The first carbon neutral hotel in Hong Kong, providing smoke-free environment to travellers
- Complimentary WiFi access and coffee/tea service with snacks at iLounge
- 24-hour complimentary use of fitness equipment in Sweat Zone
- CarbonCare Champion - CarbonCare Label by Carbon Care Asia (2011-2014)

 99

 2009

 5,530 sq.m.

 5,326 sq.m.

 1

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



■ Hotel Lobby



■ iLounge



■ iPlus Premier



iclub SHEUNG WAN HOTEL

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

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



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



■ Hotel Lobby



■ iPlus Premier

 338

 2014

 9,400 sq.m.

 6,849 sq.m.

 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
- Offers Mobile Key Check-in Service
- 1-minute walk to the nearby Tram Station and 5-minute walk to the Fortress Hill MTR Station
- Tin Hau Food Square is within walking distance, featuring international cuisine and specialized local restaurants
- Offers discerning tech-savvy business and leisure travellers a completely smoke-free environment, style and comfort
- Free WiFi access and coffee and tea service with snacks at iLounge
- 24-hour complimentary use of fitness equipment in Sweat Zone

iclub FORTRESS HILL HOTEL

The Directors of the REIT Manager herein present their report together with the audited financial statements of Regal REIT and its subsidiaries (collectively, the “Group”) for the year ended 31st December, 2014.

VISION AND LONG-TERM OBJECTIVES 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 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 and a sixth supplemental deed dated 21st July, 2011) (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, 2014, the properties 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 (formerly known as Regal iClub Hotel), iclub Sheung Wan Hotel and iclub Fortress Hill Hotel (collectively, the “iclub Hotels”).

The REIT Manager, the RHIHL Lessee, the Hotel Manager and the Trustee

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

The current leases of the Initial Hotels to Favour Link International Limited (the “RHIHL Lessee”), a wholly-owned subsidiary of Regal Hotels International Holdings Limited (“RHIHL”, together with its relevant subsidiaries, collectively, the “RHIHL Group”), will last until 31st December, 2015 under the relevant lease agreements (the “Initial Hotels Lease Agreements”). For the years 2011 to 2015, the rental packages in respect of the Initial Hotels are determined on a yearly basis by a jointly appointed independent professional property valuer (expenses to be split equally between the RHIHL Lessee and Regal REIT). The determinations include the amount of market rents (inclusive of the amount of base rent (the “Base Rent”) for each Initial Hotel, the variable rent (the “Variable Rent”) sharing percentage and the RHIHL Lessee’s contributions to the furniture, fixtures and equipment (the “FF&E”) reserve calculated as a percentage of total hotel revenue) to be applied for each of the Initial Hotels for the relevant respective years from 2011 to 2015, together with the amount of the security deposit required (collectively, the “Market Rental Package”).

Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL, was appointed as the hotel manager (the "Hotel Manager") under long-term hotel management agreements to operate the Initial Hotels (the "Initial Hotels Hotel Management Agreements") for a term of 20 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 10 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 operated directly by Regal REIT.

On 10th February, 2014, Regal REIT completed the acquisition of iclub Sheung Wan Hotel, which is a new hotel located at No. 138 Bonham Strand, Sheung Wan, Hong Kong, at a total consideration of approximately HK\$1,581.1 million (the "SW Transaction"). Upon completion of the SW Transaction, the iclub Sheung Wan Hotel was leased to the RHIHL Lessee for hotel operations for the period from 10th February, 2014 to 31st December, 2019 under a new lease agreement (the "SW Lease Agreement"), which is extendable at the option of Regal REIT for a further 5 years. The Hotel Manager of the Initial Hotels and the iclub Wan Chai Hotel was appointed as the hotel manager of the iclub Sheung Wan Hotel under a new 10-year hotel management agreement (the "SW Hotel Management Agreement") commencing on 10th February, 2014. The iclub Sheung Wan Hotel, comprising 34 storeys with 248 guestrooms and suites, commenced business operations in June 2014.

On 28th July, 2014, Regal REIT further completed the acquisition of iclub Fortress Hill Hotel, which is another new hotel located at No. 18 Merlin Street, North Point, Hong Kong, at a total consideration of approximately HK\$1,651.4 million (the "NP Transaction"). Upon completion of the NP Transaction, the iclub Fortress Hill Hotel was leased to the RHIHL Lessee for hotel operations for the period from 28th July, 2014 to 31st December, 2019 under a new lease agreement (the "FH Lease Agreement"), which is extendable at the option of Regal REIT for a further 5 years. The Hotel Manager was also appointed as the hotel manager of the iclub Fortress Hill Hotel under a new 10-year hotel management agreement commencing on 28th July, 2014. The iclub Fortress Hill Hotel, comprising 32 storeys with 338 guestrooms, commenced business operations in September 2014.

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

HOTEL PORTFOLIO

The portfolio of eight hotel properties of Regal REIT are strategically located in different districts in Hong Kong with easy and convenient access to the mass transit network and other public transportation networks, giving great convenience for hotel guests. The Regal REIT's hotel portfolio is comprised of two hotel types, namely, full service hotels, which offer a wide range of services including food and beverage outlets and other facilities, and select-service hotels, which offer convenient accessibility and contemporary design and 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
		<hr/>	
		685	
		<hr/>	
Total		4,569	
		<hr/> <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. The financial performance of Regal REIT with regard to operating results and net asset value rely on the underlying performance of the hotel businesses operated by the RHIHL Lessee under the management of the Hotel Manager.

Specifically, total hotel revenue consists of the following:

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

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

Most categories of variable expenses, such as certain labour costs in housekeeping and utility costs, fluctuate with changes in the level of room occupancy. The cost of goods sold in the hotel business, such as food products and beverages, fluctuate with guest frequency of dining in restaurants, bars and banquets. The improvement in revenue per available room ("RevPAR") is attributable to the segmental mix of the total hotel revenue and the increase in average room rate.

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

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

Initial Hotels – Rental Structure and Market Rental Package

Regal REIT received rental income, comprised of Base Rent and Variable Rent in respect of the Initial Hotels for the year 2014, from the RHIHL Lessee in accordance with the Market Rental Package for 2014.

Base Rent

Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis. During the year, Regal REIT earned an aggregate Base Rent of HK\$743.0 million, representing Base Rent of HK\$61.92 million received 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. For the year, as the aggregate net property income ("NPI") from hotel operations of the Initial Hotels was HK\$918.1 million, Regal REIT was entitled to a Variable Rent of HK\$87.6 million based on 50% sharing of the excess of the aggregate NPI over the aggregate Base Rent according to the Market Rental Package for 2014.

Market Rental Package for 2015

In June 2014, as an independent professional property valuer, Mr. David Faulkner was jointly appointed by the lessors and the RHIHL Lessee to conduct a rent review for the Initial Hotels for the year 2015. According to the determination of the Market Rental Package for the year 2015, the aggregate amount payable by the RHIHL Lessee as Base Rent was determined to be HK\$763.0 million, with Variable Rent continuing to be based on sharing 50% of the excess of the aggregate NPI of the Initial Hotels over the aggregate Base Rent from the operations thereof in 2015. According to the Market Rental Package determined for 2015, 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, for an aggregate amount of HK\$381.5 million which is equivalent to six months Base Rent for the year 2015, issued by a licensed bank in Hong Kong. Details of the Market Rental Package for the year 2015 can be referred to in an announcement published on 26th August, 2014.

iclub Wan Chai Hotel – Revenue Structure

Hotel Portion

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

For the year ended 31st December, 2014, iclub Wan Chai Hotel - Hotel portion contributed gross hotel revenue of HK\$42.7 million and incurred operating costs and expenses amounting to HK\$17.8 million.

Non-hotel Portions

iclub Wan Chai Hotel – Non-hotel portions, comprising a portion of the ground floor and the 27th to 29th floors of the premises, are let out to independent third parties which generated rental income of HK\$5.7 million for the year under review.

iclub Sheung Wan Hotel – Rental Structure

Pursuant to the SW Lease Agreement, the RHIHL Lessee is obligated to pay rentals in respect of the iclub Sheung Wan Hotel to Regal REIT for the period from 10th February, 2014 to 31st December, 2019, which is extendable at the option of Regal REIT for a further 5 years.

Fixed Rental Income

Regal REIT receives fixed rentals for the leasing of the iclub Sheung Wan Hotel commencing from 10th February, 2014 to 9th February, 2017. Annual rents for the first three years of the lease term have been determined to be HK\$79.00 million, HK\$82.95 million and HK\$86.90 million, respectively. During the period from 10th February, 2014 to 31st December, 2014, Regal REIT earned fixed rental income of HK\$73.8 million, recognised on straight-line basis.

Rent Reviews

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

iclub Fortress Hill Hotel – Rental Structure

Pursuant to the FH Lease Agreement, the RHIHL Lessee is obligated to pay rentals in respect of the iclub Fortress Hill Hotel to Regal REIT for the period from 28th July, 2014 to 31st December, 2019, which is extendable at the option of Regal REIT for a further 5 years.

Fixed Rental Income

Regal REIT receives fixed rentals for the leasing of the iclub Fortress Hill Hotel commencing from 28th July, 2014 to 27th July, 2017. Annual rents for the first three years of the lease term have been determined to be HK\$82.50 million, HK\$86.625 million and HK\$90.75 million, respectively. During the period from 28th July, 2014 to 31st December, 2014, Regal REIT earned fixed rental income of HK\$37.2 million, recognised on straight-line basis.

Rent Reviews

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

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under the respective Initial Hotels Lease Agreements and the Wan Chai Hotel Management Agreement to maintain a reserve to fund expenditures for replacements of FF&E in the Initial Hotels and iclub Wan Chai Hotel – Hotel portion, respectively. During the year, Regal REIT contributed amounts equal to 2% of the total hotel revenue (i.e. the total of room revenue, food and beverage revenue and other income of the hotel properties) for each month. In 2014, FF&E expenditures amounting to HK\$41.3 million were recorded for the purposes intended.

Pursuant to the SW Lease Agreement and the FH Lease Agreement, the RHIHL Lessee is required for the first three years of the lease term to fund the actual costs of any replacements and/or additional FF&E in the iclub Sheung Wan Hotel and/or the iclub Fortress Hill Hotel. During the year, no FF&E expenditures were recorded for these two iclub Hotels.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2014 are set out in the consolidated financial statements on pages 62 to 113.

Review of the Economic Environment in 2014

As per the Global Economic Prospects report issued by the World Bank Group in January 2015, global growth in 2014 was lower than initially expected, continuing a pattern of disappointing outcomes over the past several years. Growth picked up only marginally in 2014, to 2.6 percent, from 2.5 percent in 2013¹. Underlying these headline numbers, increasingly divergent trends are at work in major economies. While activities in the United States and the United Kingdom have gathered momentum as labour markets heal and monetary policies remain extremely accommodative, recovery in the Eurozone and Japan are slow as the effects of the financial crisis are hampered with structural bottlenecks.

In Asia, China is undergoing a soft landing in its economy. Policy measures have guided a gradual slowdown of GDP growth rate to 7.4 percent in 2014 from 7.7 percent in 2013². Since 2013, various policy measures have been enacted to contain the buildup of financial sector vulnerabilities by slowing credit growth, especially in innovative lending products. However, China may need to loosen up on the money supply to avoid any significant slowdown. Disappointing growth in other developing countries in 2014 reflected weak external demand, domestic policy tightening, political uncertainties and supply-side constraints.¹

Hong Kong's GDP recorded a year-on-year growth of 2.3% for 2014³ and, thereby, underperforming the 2.9% expansion rate last year and lagging far behind Singapore and South Korea. In the fourth quarter, growth decelerated further due to the "Occupy Central" movement. In 2014, the GDP growth rate was far lower than the average in the past 10 years. The "Occupy Central" movement severely impacted Hong Kong's retail, tourism, hospitality and transport industries as well as many facets of society. With the effects from this movement, Hong Kong's GDP only expanded by 0.4% in real terms in the fourth quarter when compared with the third quarter of 2014.³

On 18th December 2014, a new agreement was signed under the framework of the Closer Economic Partnership Arrangement (CEPA) to achieve basic liberalisation of trade in services between Guangdong and Hong Kong. Overall speaking, the Mainland has opened up 153 services trade sub-sectors to the Hong Kong services industry, accounting for 95.6% of all services trade sub-sectors in Guangdong. In respect of the mode of "commercial presence", national treatment will be applied to Hong Kong in 58 sub-sectors⁴. These potential regional developments could offer both challenges and business opportunities for Hong Kong enterprises to sustain business growth in the Mainland China market. The current forecast by the Hong Kong Tourism Board indicated that the number of in-bound visitors in 2015 could reach 64.7 million, representing a potential increase by 6.4%; out of which there would be about 51.0 million visitors from Mainland China⁵.

1 Source: Publications, World Bank Group, "Global Economic Prospects – Having Fiscal Space and Using It", January 2015.

2 Source: Press Release, National Bureau of Statistics of China, "China's Economy Realized a New Normal of Stable Growth in 2014", 20th January, 2015.

3 Source: Press Release, Census and Statistics Department, "GDP by expenditure component for the fourth quarter and the whole year of 2014", 25th February, 2015.

4 Source: CEPA, Trade and Industry Department, "Agreement between the Mainland and Hong Kong on Achieving Basic Liberalization of Trade in Services in Guangdong", 18th December, 2014.

5 Source: Papers & Reports, Tourism Commission, "Legislative Council Panel on Economic Development: Hong Kong Tourism Board Work Plan for 2015-16", 9th February, 2015.

Visitor Arrivals in Hong Kong, 2014 versus 2013⁶

Visitors to Hong Kong by Geographical Regions	2014 (Percentage of total visitors)	2014 (No. of visitors)	2013 (No. of visitors)	Variance (No. of visitors)	Variance (%)
Mainland China	77.7%	47,247,675	40,745,277	6,502,398	16.0%
South & Southeast Asia	5.9%	3,614,789	3,717,976	(103,187)	(2.8%)
North Asia	3.8%	2,329,813	2,140,576	189,237	8.8%
Taiwan	3.3%	2,031,883	2,100,098	(68,215)	(3.2%)
Europe, Africa & the Middle East	3.6%	2,218,382	2,253,681	(35,299)	(1.6%)
The Americas	2.8%	1,679,083	1,665,562	13,521	0.8%
Australia, New Zealand & South Pacific	1.2%	715,479	717,419	(1,940)	(0.3%)
Macau SAR/Not identified	1.6%	1,001,732	958,215	43,517	4.5%
Totals	100% (rounded)	60,838,836	54,298,804	6,540,032	12.0%

During 2014, Hong Kong maintained its appeal to global visitors. The visitor arrivals number achieved a record high of approximately 60.8 million, showing an increase of 12.0% year-on-year.

In particular, Hong Kong remained attractive to visitors from Mainland China and achieved double-digit growth of 16.0%, with arrivals aggregating to approximately 47.2 million, representing 77.7% of the total visitor arrivals to Hong Kong in 2014.

Arrivals from short-haul markets comprising other Asian regions (including North Asia, South & Southeast Asia, Taiwan and Macau) remained relatively stable and reached 9.0 million and, thereby, reporting a slight increase of 0.7% and accounting for 14.8% of the total arrivals.

On the other hand, long-haul markets contracted slightly by 0.5% reflecting the uncertain economic status. Total arrivals amounted to approximately 4.6 million. Visitors from the Americas, nevertheless, still displayed a moderate increase by 0.8%, representing 2.8% of the total number of visitors. On the other hand, arrivals from the Europe market declined. Overall, visitor arrivals from the European, Africa and the Middle East markets recorded a mild decrease by 1.6%, with the visitor number reaching approximately 2.2 million and taking up 3.6% of total arrivals.

Similar to other international gateway cities, in-bound visitor numbers drive the core lodging demand for the local hotel industry.

⁶ Source: Insight & Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Dec 2014", January 2015; the REIT Manager.

Review of Hotel Room Supply in Hong Kong in 2014 and Forecast for 2015

In 2014, the hotel room supply in Hong Kong reported growth of 3.9%. This represented an annual increase of 2,704 units from 70,017 to 72,721 rooms. During the year under review, 19 new hotel properties opened and the number of hotel properties rose from 225 to 244, posting year-on-year growth of 8.4%. With an anticipated continuing increase in the new room supply in 2015, 16 new hotels are projected to be opened, hence building up the room supply by 2,174 units. By the end of 2015, it is projected that the hotel room supply will reach 74,895, with an increase of about 3.0% over the preceding year.⁷

Industry Performance

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

Category	Hong Kong Hotel Market Performance (2014 versus 2013) ⁸					
	Room Occupancy Rates		Average Room Rates		RevPAR	
	2014	2013	2014	2013	2014	2013
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	86	86	2,452	2,382	2,109	2,049
High Tariff B	91	89	1,205	1,201	1,097	1,069
Medium Tariff	92	91	761	758	700	690
All Hotels	90	89	1,473	1,447	1,326	1,288

In 2014, the overall hotel occupancy rate reached 90%, which slightly surpassed the 89% level of the previous year. The industry-wide average room rate slightly improved, providing growth of 1.8% to HK\$1,473 per night. The resulting effect led to a reported gain of 3.0% on the industry-wide RevPAR and, thereby, rising it by HK\$38 year-on-year to HK\$1,326.

⁷ Source: Insight & Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Dec 2014", March 2015; the REIT Manager.

⁸ Source: Insight & Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Dec 2014", January 2015; the REIT Manager.

Performance Highlights of Regal REIT

Regal REIT currently has an aggregate of 4,569 guestrooms and suites in eight hotel properties that are strategically located across Hong Kong. The aggregate property valuation of Regal REIT's properties portfolio amounted to HK\$24,119.0 million as at 31st December, 2014, representing an increase of HK\$3,039.0 million as compared to the valuation of HK\$21,080.0 million as at 31st December, 2013. The increase is largely attributable to the additions of the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel during the year, with an aggregate value of HK\$3,230.0 million. Overall, the performance of the properties portfolio of Regal REIT was satisfactory for 2014.

Performance of the Initial Hotels

Total hotel revenue, gross operating profit, net property income and statistics for the combined Initial Hotels for FY2014 versus FY2013 are set out below.

	FY2014 HK\$'million	FY2013 HK\$'million	Variance HK\$'million	Variance (%)
Operating Results				
Room revenue	1,403.3	1,322.1	81.2	6.1%
Food and beverage revenue	581.1	531.9	49.2	9.2%
Other income	44.2	45.4	(1.2)	(2.6%)
Total hotel revenue	2,028.6	1,899.4	129.2	6.8%
Operating expenses	(1,078.6)	(982.4)	(96.2)	9.8%
Gross operating profit	950.0	917.0	33.0	3.6%
Other expenses	(72.7)	(69.9)	(2.8)	4.0%
Net rental income	40.8	33.9	6.9	20.4%
Net property income	918.1	881.0	37.1	4.2%
Statistics				
Average room rate	HK\$1,070.97	HK\$1,043.63	HK\$27.34	2.6%
Occupancy rate	92.4%	90.2%	2.2%	2.4%
RevPAR	HK\$989.40	HK\$941.66	HK\$47.74	5.1%
Total available room nights	1,418,025	1,403,688	14,337	1.0%
Occupied room nights	1,310,023	1,266,532	43,491	3.4%

During the year under review, total hotel revenue of the Initial Hotels showed a gain of 6.8% and achieved HK\$2,028.6 million (2013: HK\$1,899.4 million). Gross operating profit recorded a 3.6% growth, reaching HK\$950.0 million, up from HK\$917.0 million in 2013. As a result, the net property income attained HK\$918.1 million, displaying growth of 4.2% as compared to HK\$881.0 million in the preceding year.

The average occupancy rate of the Initial Hotels attained 92.4%, posting a moderate increase of 2.4% as compared to the preceding year. The average room rate of the Initial Hotels, despite strong competition, reported a gain of 2.6%, from HK\$1,043.63 in 2013 to HK\$1,070.97 in 2014. Likewise, the RevPAR of the Initial Hotels saw a 5.1% increase from HK\$941.66 in 2013 to HK\$989.40 in 2014.

For 2014, the guest mix by segments of the Initial Hotels was comprised mainly of 53.1% business travellers and 39.3% leisure travellers. Statistics reflected that business travelling and leisure seeking took up 11.6% and 61.8% respectively as the key attributes to the purpose of visit to Hong Kong⁹. This reaffirmed that the Initial Hotels continue to successfully attracted business travellers to their full service commercial hotels in prime business locations.

Performance of iclub Wan Chai Hotel

The iclub Wan Chai Hotel continued to display strong demand. The 2014 year-round average occupancy rate was close to 100%. However, due to keen competition within the area, the average room rate displayed a slight decrease by 2.6% from HK\$1,208 in 2013 to HK\$1,176 in 2014. The non-hotel portions of iclub Wan Chai Hotel, comprising the portion of the ground floor and other areas on the 27th to 29th floor of the premises, were leased to third party lessees and generated rental income of approximately HK\$5.7 million in 2014. With the positive business trend since the full acquisition of the iclub Wan Chai Hotel in 2010, the REIT Manager is convinced that iclub Hotel's operating model and the hotel product protocol consistently appeal to hotel guests of this target sector.

Performance of iclub Sheung Wan Hotel

The iclub Sheung Wan Hotel commenced hotel operations in June 2014 with its performance ramping up steadily. During the year, Regal REIT earned fixed rental income, 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.

Performance of iclub Fortress Hill Hotel

The iclub Fortress Hill Hotel commenced hotel operations in September 2014 with its performance considered satisfactory for new starters. During the year, Regal REIT earned fixed rental income, 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.

9 Source: Insight & Research, Hong Kong Tourism Board, "Visitors' Purpose of Visit by Major Market Areas", January 2015; the REIT Manager.

Net Rental and Hotel Income

The aggregate net rental and hotel income for Regal REIT for the year ended 31st December, 2014 (as compared to the prior year) is set out below.

	2014		2013	
	HK\$'million	%	HK\$'million	%
Rental income - Initial Hotels				
Base Rent	743.0	74.2	734.0	84.7
Variable Rent	87.6	8.8	73.5	8.5
Other income	10.7	1.1	10.4	1.2
Rental income				
iclub Sheung Wan Hotel	73.8	7.3	–	–
iclub Fortress Hill Hotel	37.2	3.7	–	–
iclub Wan Chai Hotel				
Gross hotel revenue	42.7	4.3	43.9	5.0
Rental income	5.7	0.6	5.1	0.6
Gross rental and hotel income	1,000.7	100.0	866.9	100.0
Property operating expenses	(11.5)	(1.1)	(11.2)	(1.3)
Hotel operating expenses	(17.8)	(1.8)	(18.6)	(2.1)
Net rental and hotel income	971.4	97.1	837.1	96.6

During the year under review, net rental and hotel income represented 97.1% 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 - Hotel portion, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel.

Distributable Income and Distribution Policy

Total Distributable Income (as defined in the Trust Deed) is "the amount calculated by the REIT Manager (based on the audited financial statements of the Trust for that Financial Year) as representing the consolidated audited net profit after tax of the Trust and the Special Purpose Vehicles (as defined in the offering circular dated 19th March, 2007 issued in connection with the listing of Units) for that Financial Year, as adjusted for the Adjustments". Adjustments are made to the distributable income to eliminate the effects of certain non-cash items and cash items which have been recorded in Regal REIT's consolidated income statement, including "difference in accounting rental income and contractual cash rental income", "fair value changes on investment properties", "amounts set aside for the FF&E reserve", "amortisation of debt establishment costs", "depreciation", "foreign exchange differences, net" and "deferred tax charge".

Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's Total Distributable Income for each financial year. The current policy of the REIT Manager is to distribute to Unitholders no less than 90% of Regal REIT's Total Distributable Income for each financial year.

Distributions for 2014

The Board of Directors of the REIT Manager has resolved to declare a final distribution of HK\$0.088 per Unit for the period from 1st July, 2014 to 31st December, 2014. Together with the interim distribution of HK\$0.074 per Unit for the period from 1st January, 2014 to 30th June, 2014, total distributions per Unit for 2014 will amount to HK\$0.162, representing a yield of 7.9% based on the Unit closing price of HK\$2.05 on the last trading day of 2014. The final distribution of HK\$0.088 per Unit will be payable to Unitholders on the Register of Unitholders on 18th May, 2015.

Total Distributable Income for the year ended 31st December, 2014 was HK\$532.9 million. Total distributions for the year, including the interim distribution of HK\$241.0 million and the final distribution of HK\$286.7 million, will amount to HK\$527.7 million or 99.0% of the Total Distributable Income for the year.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Thursday, 14th May, 2015 to Monday, 18th May, 2015, 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 Wednesday, 13th May, 2015. The relevant distribution warrants are expected to be despatched on or about 26th May, 2015.

Valuation of the Properties Portfolio

As at 31st December, 2014, Regal REIT's overall properties portfolio was valued at HK\$24,119.0 million (31st December, 2013: HK\$21,080.0 million). The properties portfolio is comprised of the five Initial Hotels, the iclub Sheung Wan Hotel, the iclub Fortress Hill Hotel and the non-hotel portions of iclub Wan Chai Hotel that are classified as investment properties, and the owner-occupied hotel portion of iclub Wan Chai Hotel which is classified as property, plant and equipment.

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

Property	Location	31 Dec 2014 Valuation HK\$ million	31 Dec 2013 Valuation HK\$ million	% Change
<i>Initial Hotels:</i>				
Regal Airport Hotel	Lantau Island	3,480	3,440	+1.2%
Regal Hongkong Hotel	HK Island	4,180	4,290	-2.6%
Regal Kowloon Hotel	Kowloon	5,480	5,480	–
Regal Oriental Hotel	Kowloon	2,160	2,230	-3.1%
Regal Riverside Hotel	New Territories	4,700	4,760	-1.3%
		20,000	20,200	-1.0%
<i>iclub Hotels:</i>				
iclub Wan Chai Hotel	HK Island	889	880	+1.0%
iclub Sheung Wan Hotel	HK Island	1,580	N/A	N/A
iclub Fortress Hill Hotel	HK Island	1,650	N/A	N/A
Overall properties portfolio		24,119	21,080	+14.4%

The valuation of the properties portfolio as at 31st December, 2014 was conducted by Savills Valuation and Professional Services Limited ("Savills"), the principal valuer of Regal REIT appointed by the Trustee pursuant to the provisions of the REIT Code.

Savills, an independent professional property valuer, assessed the market values of the properties portfolio subject to the lease agreements, hotel operations and the hotel management agreements and in accordance with "The HKIS Valuation Standards (2012 Edition)", the Listing Rules and the REIT Code. Savills 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 direct comparison method was also used as a check on the valuation arrived from the DCF method.

Capital Addition Projects

Regal REIT undertakes, from time to time, funding of capital addition projects with the objective to improving portfolio competitiveness and product offerings, with a view to enhancing the income generating capability, profitability of the hotel properties portfolio and special utilization. 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 under review, Regal REIT incurred capital expenditures of HK\$43.9 million on major capital additions and completed renovation work for approximately 310 hotel rooms.

Financial Strategy

The REIT Manager has continued to adopt a prudent approach to ensure that the leverage ratios do not exceed the thresholds prescribed under the REIT Code and financial covenants of the relevant loan facility agreements. As at 31st December, 2014, Regal REIT had unsecured notes due in 2018 for an aggregate nominal principal amount of HK\$1,938.6 million and bank loan facilities of up to HK\$6,855.0 million with different maturities.

The REIT Manager monitors interest rate movements in the Hong Kong Interbank Offered Rates ("HIBOR") on an on-going basis and makes judgments with a view to containing fluctuation risks. The REIT Manager continues to implement conservative hedging strategies to minimize the impact of interest rate fluctuations.

Regal REIT Medium Term Note Programme and Notes Issuances

In January 2013, Regal REIT established and listed 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.

In March 2013, by way of private placements under the MTN Programme, a series of unsecured 5-year term notes due March 2018 for an aggregate amount of HK\$775.0 million at a coupon interest rate of 4.125% per annum were issued (the "March 2013 Notes"). In May 2013, by way of syndicated placements, another series of unsecured 5-year term notes due May 2018 for an aggregate amount of US\$150.0 million at a coupon interest rate of 4.10% per annum were issued (the "May 2013 Notes"). The aggregate net proceeds of these two notes amounted to approximately HK\$1,920.9 million, which were used for payments of the deposit and refundable cash collateral in relation to the acquisitions of the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel, respectively.

On 22nd July, 2013, the payments of the deposit and refundable cash collateral were effected after approval of the relevant transactions by the independent Unitholders. According to the terms of the related share purchase agreement (the "Share Purchase Agreement") and the option agreement (the "Option Agreement"), P&R Holdings Limited ("P&R Holdings") paid interest quarterly to Regal REIT at the rate of 4.3047% per annum on the deposit and the refundable cash collateral, from the dates of payment by Regal REIT up to the respective dates when the deposit and the refundable cash collateral were refunded to the Trustee in February 2014 and July 2014, respectively.

As at 31st December, 2014, the aggregate nominal principal amount of the March 2013 Notes and the May 2013 Notes stood at HK\$1,938.6 million.

Loan Financing

As at 31st December, 2014, Regal REIT had loan facilities aggregating HK\$6,855.0 million, comprised of: (a) term and revolving loan facilities of up to HK\$4,800.0 million secured by three of the five Initial Hotels; (b) a loan facility of HK\$440.0 million secured by the iclub Wan Chai Hotel; (c) term and revolving loan facilities of up to HK\$790.0 million secured by the iclub Sheung Wan Hotel; and (d) term and revolving loan facilities of up to HK\$825.0 million secured by the iclub Fortress Hill Hotel.

Financing for the Initial Hotels

The agreement for a term loan facility up to HK\$4,500.0 million and a revolving facility of up to HK\$300.0 million (the "2013 IH Facilities") was entered into on 23rd July, 2013 by Regal REIT, through its wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, for a term of five years to July 2018, and is secured by three of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel. The 2013 IH Facilities bear HIBOR-based interest. As at 31st December, 2014, the outstanding amount on the 2013 IH Facilities was HK\$4,520.0 million, comprised of the full amount of the term loan facilities of HK\$4,500.0 million and the amount outstanding under the revolving facility of HK\$20.0 million.

Financing for iclub Wan Chai Hotel

Regal REIT, through its wholly-owned subsidiary, Sonnix Limited, had a bilateral loan facility of HK\$340.0 million (the "2012 WC Facility") for the iclub Wan Chai Hotel with an original expiry in February 2015. On 22nd December, 2014, a new term loan facility agreement for a principal amount of up to HK\$440.0 million (the "2014 WC Facility") was entered into, for a new term of 5 years to December 2019. The 2014 WC Facility bears HIBOR-based interest throughout the term and was fully drawn with the proceeds being applied mainly for the repayment of the 2012 WC Facility. As at 31st December, 2014, the outstanding loan facility was HK\$440.0 million.

Financing for iclub Sheung Wan Hotel

On 10th February, 2014, Regal REIT, through its wholly-owned subsidiary, Tristan Limited, arranged for 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 facility of HK\$158.0 million, secured by the iclub Sheung Wan Hotel (the "2014 SW Facilities"). The 2014 SW Facilities, used primarily to complete the acquisition of the iclub Sheung Wan Hotel after deduction of the deposit of HK\$948.0 million from the purchase consideration, have a term of 5 years to February 2019. As at 31st December, 2014, the utilized 2014 SW Facilities were comprised of the full term loan amount of HK\$632.0 million and an amount of HK\$43.0 million outstanding under the revolving facility.

Financing for iclub Fortress Hill Hotel

On 28th July, 2014, Regal REIT, through its wholly-owned subsidiary, Wise Decade Investments Limited, arranged for 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 facility of HK\$165.0 million, secured by the iclub Fortress Hill Hotel (the "2014 FH Facilities"). The 2014 FH Facilities, arranged primarily to complete the acquisition of the iclub Fortress Hill Hotel after deduction of the refundable cash collateral of HK\$990.0 million from the purchase consideration, have a term of 5 years to July 2019. As at 31st December, 2014, the utilized 2014 FH Facilities comprised only of the full term loan amount of HK\$660.0 million.

Managing fluctuations in interest rates

In order to hedge against fluctuations in interest rates, Regal REIT entered into certain interest rate swap arrangements covering the period from 2012 to 2015. As at 31st December, 2014, the interest costs for approximately 44% of the debt exposure in respect of the aggregate loan facilities has been set at fixed rates through various plain vanilla interest rate swaps against floating HIBOR. The fixed rates payable to the hedging banks range from 0.355% per annum to 0.483% per annum, with maturities up to 9th March, 2015.

Gearing and Cash

As at 31st December, 2014, the gearing ratio of Regal REIT was 33.9% (2013: 29.8%), being the gross amount of the outstanding loans and debts aggregating HK\$8,233.6 million, which takes into account: (a) the debts in relation to the March 2013 Notes and the May 2013 Notes issued under the MTN Programme for an aggregate nominal principal amount of HK\$1,938.6 million; (b) the 2013 IH Facilities of HK\$4,520.0 million; (c) the 2014 WC Facility of HK\$440.0 million; (d) the 2014 SW Facilities of HK\$675.0 million; and (e) the 2014 FH Facilities of HK\$660.0 million, as compared to the total gross assets of HK\$24,287.5 million, which is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of HK\$47.2 million in restricted bank balances and HK\$59.1 million in unrestricted cash and bank balances, and unutilized revolving facilities of HK\$560.0 million as at 31st December, 2014. Regal REIT maintains sufficient cash reserves and receives timely payments of rental income to satisfy its financial commitments and working capital requirements on an on-going basis.

As at 31st December, 2014, six of the eight Regal REIT properties, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Riverside Hotel, iclub Wan Chai Hotel, iclub Sheung Wan Hotel and iclub Fortress Hill Hotel, with an aggregate carrying value of HK\$16,479.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

OUTLOOK FOR 2015

Hong Kong's economic environment showed a slight slowdown in growth for the year 2014 with the GDP growth rate for the whole year 2014 edging down 0.6% from a year earlier to 2.3%³. The unemployment rate (seasonally adjusted) of Hong Kong for the last quarter of 2014 was 3.3%¹⁰ which maintained stable at a relatively low level. Overall, the global economy for 2014 was weaker than expected. As per the Managing Director of the International Monetary Fund, Ms. Christine Lagarde: "Only a modest pickup is foreseen for 2015, as the outlook for potential growth has been pared down. Among advanced economies, the rebound is expected to be strongest in the United States and the United Kingdom; modest in Japan; and weakest in the Euro Area, within which there are disparities. Emerging market and developing economies have been doing much of the heavy lifting during this crisis—accounting for more than 80 percent of world growth since 2008. Led by Asia, and China in particular, it is expected that they will continue to help drive global activity. For them too, however, it is likely to be at a slower pace than before."¹¹

10 Source: Press Release, Census and Statistics Department, "Unemployment and underemployment statistics for October – December 2014", 19th January, 2015.

11 Source: News, International Monetary Fund, "The Challenge Facing the Global Economy: New Momentum to Overcome a New Mediocre", 2nd October, 2014.

In Hong Kong, the economic performance in 2015 is expected to follow the slow and uneven global recovery. However, there will be a number of expected features from which Hong Kong should benefit. First, the global economy and international trade should improve moderately. The World Bank Group expects that global growth in 2015 will come in at around 3.0%¹, which is stronger than the average for the past three years. Second, the divergence in growth between the developed and emerging markets will continue to narrow. Third, the effects of economic restructuring in Mainland China on Hong Kong may become more significant. Even though China's economic growth in 2015 will only be in the range of 7%¹, regarded as moderate by virtue of its past trend, such growth rate is still regarded as one of the highest amongst all other major economies. With these encouraging fundamentals, Hong Kong's competitiveness to continue serving as an international financial hub and a gateway city to facilitate the Renminbi internationalization process remains positive.

As per the 2015 Policy Address by the Chief Executive, Mr. C Y Leung, the Hong Kong Government will advance economic and financial cooperation with the Mainland by capitalising on the enormous growth opportunities arising from the implementation of the National 12th Five-Year Plan and, giving full play to Hong Kong's roles and functions in the National 13th Five-Year Plan under the "One Country, Two Systems" principle. In particular, the Hong Kong Government will assist local businesses and service industries to tap the Mainland markets by taking advantage of the recent newly expanded scope for CEPA.

For the tourism sector, the Hong Kong Government will focus on five major areas to attract more visitors, namely: (1) commencing discussion with The Walt Disney Company on the Phase 2 development of the Hong Kong Disneyland Resort, (2) continuing with the drafting of the legislation for the establishment of the Travel Industry Authority and implementation of a new regulatory framework for the tourism sector, (3) overseeing the business development and operation of the Kai Tak Cruise Terminal. This will include continuing to support the Hong Kong Tourism Board's promotion of cruise tourism and to work closely with the Advisory Committee on Cruise Industry and the trade to develop Hong Kong into a leading cruise hub in the region, (4) supporting the Hong Kong Tourism Board in its continued promotion work in target source markets, particularly the markets relating to meetings, conventions and exhibitions, and incentive travels, and (5) facilitating Ocean Park to implement its waterpark project¹².

As Mainland China tourists represented over 77%⁶ of the total number of visitors to Hong Kong in 2014, China's Central Government and the Hong Kong Government are performing regular reviews of the Individual Visit Scheme (IVS) in order to maintain the stable and orderly development of the tourism industry of Hong Kong. With the improvement of local and cross-border infrastructures together with the further enhancements of local attractions and services, Hong Kong will have the capability to increase the number of pilot cities for visiting under the IVS. As per the assessment on Hong Kong's capacity to receive tourists by the Commerce and Economic Development Bureau in 2013, the Hong Kong Government is committed to maintain the leading position of Hong Kong as one of the most preferred tourist destinations in Asia. The projected target is to embrace the tremendous market opportunities for the 70 million projected visitor arrivals in 2017 and gradually increase to 100 million projected visitor arrivals in 2023¹³. Based on such market potential, the business prospects for the hospitality sector are believed to be very promising.

12 Source: Policy Agenda, 2015 Policy Address, "Chapter 1 – Economic Development", January 2015.

13 Source: Commerce and Economic Development Bureau, "Assessment Report on Hong Kong's Capacity to Receive Tourists", December 2013.

With the new Shanghai-Hong Kong Stock Connect pilot programme launched on 17th November, 2014, investors in Hong Kong and Shanghai can trade designated equity securities listed in the other's market¹⁴. This mutual market access programme is a breakthrough in the opening up of China's financial markets and a great milestone in the development of Hong Kong as a unique gateway between mainland and international investors. Together with the enlarged scope of CEPA, the demand for hotel accommodation is expected to be increased due to the expanded economic and business development.

Above all, with the two new iclub Hotels acquired in 2014, Regal REIT's investment portfolio is boosted to 4,569 guestrooms and suites with a 14.7% increase in room inventory as compared to the previous year. Management is optimistic about the future business prospects and looking forward to enlarging the portfolio of Regal REIT based upon the strong fundamentals in the hotel and tourism sectors in Hong Kong and the economic development of China.

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.

¹⁴ Source: HKEx News Release, Hong Kong Exchanges and Clearing Limited, "HKEx celebrates the launch of Shanghai-Hong Kong Stock Connect", 17th November, 2014.

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 total net 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 subject to Unitholders' approval to amend the Trust Deed to effect the relevant amendments, Regal REIT will be able to enjoy a larger degree of flexibility in its expanded investment scope.

The REIT Manager continues to actively monitor target markets for opportunities, while remaining committed to the set investment criteria.

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

MATERIAL ACQUISITIONS OR DISPOSALS OF REAL ESTATE

Save as disclosed herein in relation to the completion of the acquisitions of iclub Sheung Wan Hotel and iclub Fortress Hill Hotel from P&R Holdings on 10th February, 2014 and 28th July, 2014, respectively, Regal REIT did not enter into any real estate acquisition or disposal transactions during the year.

OTHER INVESTMENT

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

BUY-BACK, SALE OR REDEMPTION OF UNITS

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

EMPLOYEES

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

MAJOR REAL ESTATE AGENTS

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

MAJOR CONTRACTORS

In 2014, 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	2,161	7.4%
Regal Hotels International Limited	Marketing fees	427	1.5%
Paliburg Estate Management Limited	Building management fees	454	1.5%
		<u>3,042</u>	<u>10.4%</u>

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

ANNUAL GENERAL MEETING

The 2015 Annual General Meeting of Regal REIT will be convened on Monday, 18th May, 2015. Relevant notice of the Meeting will be contained in the circular of Regal REIT relating to the general mandate to buy-back Units to be sent to the Unitholders, together with the 2014 Annual Report.

SUBSEQUENT EVENTS AFTER THE YEAR UNDER REVIEW

Subsequent to the year under review, on 12th March, 2015, Regal REIT, through its wholly-owned subsidiaries, which are the property companies of each of the Initial Hotels, has entered into:

- (a) supplemental lease agreements in respect of each Initial Hotel with the RHIHL Lessee to: (a) extend the original term of each of the Initial Hotels Lease Agreement, which will expire on 31st December, 2015, by a further five years from 1st January, 2016 to 31st December, 2020 (the "Extended Period"). As a result, the total lease term of each Initial Hotels Lease Agreement will be from the Listing Date to 31st December, 2020; and (b) amend the formula for calculating the amount of the security deposit during the Extended Period, (together, the "Lease Extension/Amendment"); and
- (b) supplemental lease guarantees in respect of each Initial Hotel with the Trustee and RHIHL to make consequential amendments in light of the Lease Extension/Amendment, so that RHIHL's obligation to maintain a third party guarantee will cover the Extended Period and track changes to the formula for calculating the amount of the security deposit under the Lease Extension/Amendment.

The above mentioned supplemental lease agreements and the supplemental lease guarantees will only become effective upon the independent Unitholders' approval being obtained at the forthcoming extraordinary general meeting of Regal REIT to be convened on Tuesday, 14th April, 2015. Full details of the Lease Extension/Amendment and other lease related matters can be referred to the announcement and circular to the Unitholders, both dated 13th March, 2015 published by the REIT Manager.

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, 24th March, 2015

DIRECTOR AND EXECUTIVE OFFICER PROFILES

DIRECTOR PROFILES

Mr. Lo Yuk Sui, aged 70, 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 44 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 35, Vice Chairman and Non-executive Director – Miss Lo was appointed as a Non-executive Director of the REIT Manager in 2012 and elected as the Vice Chairman of the REIT Manager in 2013. She graduated from Duke University, North Carolina, U.S.A. with a Bachelor’s degree in psychology. She is currently an executive director and a vice chairman of CCIHL and Cosmopolitan, an executive director of PHL, and an executive director, a vice chairman and the managing director of RHIHL. Miss Lo oversees the sales and marketing function of the RHIHL group and also undertakes responsibilities in the business development of the CCIHL group. Miss Lo is the daughter of Mr. Lo Yuk Sui and the sister of Mr. Jimmy Lo Chun To.

Mr. Johnny Chen Sing Hung, aged 47, Executive Director and Responsible Officer – Mr. Chen joined the REIT Manager as the Director – Asset Management in July 2014. He was appointed as an Executive Director and a member of the Disclosure Committee of the REIT Manager with effect from 26th August, 2014. Mr. Chen is responsible for, among other things, overseeing and managing the asset management activities of Regal REIT and, jointly with Mr. Simon Lam Man Lim, for making disclosures and communications of Regal REIT to investors. Mr. Chen holds a Bachelor’s degree in administrative studies and a Bachelor of Arts degree (major in mathematics for commerce) from York University, Canada. He is a fellow member of the Hong Kong Institute of Directors, a member of the Chinese People’s Political Consultative Conference, Yuexiu District, Guangzhou City, China, and a member of Hong Kong Securities and Investment Institute. Mr. Chen has over 20 years of business development, trading, property investment, development and management experience. He is currently a non-executive director of Silver Base Group Holdings Limited, which is listed on the Hong Kong Stock Exchange. Prior to joining the REIT Manager, Mr. Chen was the Vice President - Business Development of Century City Holdings Limited, a subsidiary of CCIHL, from May 2013 to July 2014. Prior to that, he held various management and controller positions in different major Hong Kong companies and multinational corporations, including Faithful Trading (H.K.) Ltd, Gome Home Appliances (HK) Limited and Chevalier Group.

Mr. Simon Lam Man Lim, aged 58, 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 The Link Management Limited (the REIT manager of The Link REIT), Johnson Electric, Motorola Asia Pacific Limited and Philips Electronics Group.

Mr. John William Crawford, JP, aged 72, Independent Non-executive Director – Mr. Crawford was appointed as an Independent Non-executive Director of the REIT Manager in 2006. He was one of the founders of Ernst & Young, Hong Kong office and vice-chairman of the firm when he retired at the end of 1997. During his 25 years in public practice, he was also the chairman of the audit division of Ernst & Young and was active in a number of large private and public company takeover and/or restructuring exercises. He has continued to undertake consultancy/advisory work in a private capacity since retirement, is active in the education sector and is the chairman of International Quality Education Limited. He also remains active in various community service areas such as having been a founding member of UNICEF Hong Kong Committee and the Hong Kong Institute of Directors. In 1997, he was appointed a Justice of the Peace in Hong Kong. He currently acts as an independent non-executive director and the chairman of the audit committee of e-Kong Group Limited, which is listed on the Hong Kong Stock Exchange. He is also an independent non-executive director of Entertainment Gaming Asia Inc. which is listed on the NASDAQ.

Mr. Donald Fan Tung, aged 58, Non-executive Director – Mr. Fan was appointed as a Non-executive Director of the REIT Manager in 2006. He is a qualified architect. He is currently an executive director of CCIHL, PHL and RHIHL. He is also the chief operating officer of PHL. He is involved in the property development, architectural design and project management functions as well as overseeing the building construction business of the PHL group.

Mr. Alvin Leslie Lam Kwing Wai, aged 70, Independent Non-executive Director – Mr. Lam was appointed as an Independent Non-executive Director of the REIT Manager in 2006. He is the chairman and an executive director of Golden Resources Development International Limited, which is listed on the Hong Kong Stock Exchange. He holds a Master of Business Administration degree from the University of California, Berkeley, U.S.A.. He has extensive experience in financial management and investment planning.

Mr. Jimmy Lo Chun To, aged 41, 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 60, 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 65, 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 69, Independent Non-executive Director – Mr. Shek was appointed as an Independent Non-executive Director of the REIT Manager in 2006. He holds a Bachelor of Arts degree from the University of Sydney. He is currently a member of the Legislative Council for the Hong Kong Special Administrative Region. He is also a member of the Court of The Hong Kong University of Science & Technology, a member of both of the Court and the Council of The University of Hong Kong, a director of The Hong Kong Mortgage Corporation Limited, a non-executive director of the Mandatory Provident Fund Schemes Authority and a director of Heifer International Hong Kong Limited. 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, Dorsett Hospitality International Limited, ITC Corporation Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, NWS Holdings Limited, PHL and SJM Holdings Limited and the chairman and independent non-executive director of Chuang's China Investments Limited, all of which are companies listed on the Hong Kong Stock Exchange. He also currently acts as an independent non-executive director of Hop Hing Group Holdings Limited, Lai Fung Holdings Limited 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. Yip Yat Wa, Responsible Officer and Senior Property and Technical Manager – Mr. Yip is responsible for, among other things, monitoring the actual completion of the asset enhancement programme from a technical point of view, receiving and interpreting technical reports and keeping the Executive Directors informed of the ongoing progress of the programme. He is also responsible for reviewing proposals from the Hotel Manager in relation to capital additions projects, expenditures for the replacement of furniture, fixtures and equipment and assisting the Executive Directors to assess the justification and feasibility of such expenditures. Furthermore, he inspects and reviews all potential and new acquisitions from a structural and technical point of view. Mr. Yip has over 30 years of engineering experience. He has been involved in several large projects, responsible for coordinating and monitoring building services installations and builder's work, maintenance, repairs and renovation work for hotels and commercial buildings.

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

Ms. Charlotte Cheung Wing Shan, Internal Auditor – Ms. Cheung is responsible for, among other things, reviewing the accuracy and completeness of records of the operations and transactions of Regal REIT and ensuring that the 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 Securities and Futures Commission (the "SFC") under section 104 of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") and regulated by the provisions of the Code on Real Estate Investment Trusts (the "REIT Code") and constituted by a trust deed (the "Trust Deed").

The REIT Manager is licensed by the SFC under the SFO to conduct regulated activities related to asset management. During the year under review, Mr. Johnny Chen Sing Hung, Mr. Simon Lam Man Lim and Mr. Yip Yat Wa were duly appointed as the Responsible Officers of the REIT Manager.

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

ROLES OF THE TRUSTEE AND THE REIT MANAGER

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

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

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

BOARD OF DIRECTORS OF THE REIT MANAGER

Functions of the Board

The board of directors of the REIT Manager (the "Board") is responsible for overseeing the overall governance of the REIT Manager and the day-to-day management of the REIT Manager's affairs and the conduct of its business. The Board has established a framework for the management of Regal REIT, including systems of internal control and business risk management processes.

Board Composition

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

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

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

The Board presently comprises two Executive Directors, five Non-executive Directors and four Independent Non-executive Directors. The positions of Chairman and Chief Executives are held by different persons in order to maintain an effective segregation of duties. The Board currently comprises the following members:

Chairman and Non-executive Director

Lo Yuk Sui

Vice Chairman and Non-executive Director

Lo Po Man

Executive Directors

Johnny Chen Sing Hung

Simon Lam Man Lim

Non-executive Directors

Donald Fan Tung

Jimmy Lo Chun To

Kenneth Ng Kwai Kai

Independent Non-executive Directors

John William Crawford, JP

Alvin Leslie Lam Kwing Wai

Kai Ole Ringenson

Abraham Shek Lai Him, GBS, JP

On 1st August, 2014, Mr. Francis Chiu resigned as an Executive Director of the REIT Manager and Mr. Johnny Chen Sing Hung was appointed as an Executive Director of the REIT Manager with effect from 26th August, 2014.

The names and biographical details of the Directors, together with any relationships among them, are disclosed in the preceding section "Director Profiles" contained in this Annual Report.

Appointment and Removal of Directors

The appointment and removal of Directors is a matter for the Board and the shareholder of the REIT Manager to determine in accordance with the provisions of the Compliance Manual and the articles of association of the REIT Manager. All Directors (including the Non-executive Directors and Independent Non-executive Directors) of the REIT Manager were not appointed for specific terms, but in accordance with the Compliance Manual, the maximum term of Independent Non-executive Director is nine years. If such Independent Non-executive Director has served on the Board for more than nine years, his further appointment will be subject to a separate resolution to be approved by Unitholders.

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

Directors' Interests in Contracts

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

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

Conflicts of Interest

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

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

Independence of Independent Non-executive Directors

Each of the Independent Non-executive Directors of the REIT Manager has made an annual confirmation of independence pursuant to the "Criteria for Independence of INEDs" as set out in the Compliance Manual, on terms no less exacting than those set out in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for assessing the independence of a Non-executive director.

Change of Information of Directors

Subsequent to publication of the 2014 interim report of Regal REIT, the REIT Manager was informed of the following changes of Director's information:

Name of Director	Details of changes
Mr. Johnny Chen Sing Hung	– Appointed as an Executive Director and a member of the Disclosure Committee of the REIT Manager, both with effect from 26th August, 2014.
Mr. Francis Chiu	– Resigned as an Executive Director and a member of the Disclosure Committee of the REIT Manager, both with effect from 1st August, 2014.
Hon. Abraham Shek Lai Him	– Appointed as a non-executive director of the Mandatory Provident Fund Schemes Authority with effect from 17th March, 2015. – Appointed as a director of Heifer International Hong Kong Limited with effect from 19th March, 2015.

Continuous Professional Development of Directors

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

Meetings

The Board conducts regular meetings and generally meets no less than four times in each financial year, at approximate quarterly intervals, to discuss and decide on major corporate, strategic, business and operational issues. Appropriate and sufficient information is provided to the members of the Board in a timely manner in order to enable them to discharge their duties.

Four full Board meetings of the REIT Manager and one general meeting of the Unitholders were held during the year ended 31st December, 2014 and the attendance rates of the individual Board members were as follows:

Name of Directors	Attendance/ No. of General Meeting	Attendance/ No. of Board Meetings
<i>Chairman and Non-executive Director</i>		
Lo Yuk Sui	1/1	4/4
<i>Vice Chairman and Non-executive Director</i>		
Lo Po Man	1/1	4/4
<i>Executive Directors</i>		
Johnny Chen Sing Hung (appointed on 26th August, 2014)	N/A	1/1
Francis Chiu (resigned on 1st August, 2014)	1/1	2/2
Simon Lam Man Lim	1/1	4/4
<i>Non-executive Directors</i>		
Donald Fan Tung	1/1	4/4
Jimmy Lo Chun To	1/1	3/4
Kenneth Ng Kwai Kai	1/1	4/4
<i>Independent Non-executive Directors</i>		
John William Crawford, JP	1/1	4/4
Alvin Leslie Lam Kwing Wai	1/1	3/4
Kai Ole Ringenson	0/1	4/4
Abraham Shek Lai Him, GBS, JP	1/1	4/4

AUDIT COMMITTEE

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

Independent Non-executive Directors

John William Crawford, JP (Chairman of the Committee)

Alvin Leslie Lam Kwing Wai

Kai Ole Ringenson

Abraham Shek Lai Him, GBS, JP

Non-executive Director

Kenneth Ng Kwai Kai

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

In addition to informal or ad hoc meetings and discussions, three formal Audit Committee meetings of the REIT Manager were held during the year ended 31st December, 2014 for considering and reviewing, among other things, the 2013 final results, the 2014 interim results, internal audit reports, connected party transactions 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)	3/3
Alvin Leslie Lam Kwing Wai	3/3
Kai Ole Ringenson	3/3
Abraham Shek Lai Him, GBS, JP	3/3
Kenneth Ng Kwai Kai	3/3

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 disclosure 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

Mr. Francis Chiu ceased to be a member of the Disclosure Committee with effect from 1st August, 2014 and Mr. Johnny Chen Sing Hung was appointed as new member of the Disclosure Committee with effect from 26th August, 2014.

Three formal Disclosure Committee meetings of the REIT Manager were held during the year ended 31st December, 2014 for considering and reviewing, among other things, the 2013 final results announcement, the 2013 annual report, the 2014 interim results announcement, the 2014 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 (appointed on 26th August, 2014)	N/A
Francis Chiu (resigned on 1st August, 2014)	2/2
Simon Lam Man Lim	3/3
Donald Fan Tung	3/3
Kenneth Ng Kwai Kai	3/3
Kai Ole Ringenson	3/3

AUDITORS' REMUNERATION

The remuneration to Messrs. Ernst & Young, the external auditors of Regal REIT, in respect of the audit and non-audit services rendered for the year ended 31st December, 2014 were HK\$1.6 million (2013: HK\$1.5 million) and HK\$0.3 million (2013: HK\$2.5 million), respectively.

REPORTING AND TRANSPARENCY

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

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

GENERAL MEETINGS

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. 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.

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, 2014.

INTERNAL CONTROLS

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

The Board has, through the Audit Committee and the Internal Auditor, conducted reviews of the effectiveness of the systems of internal control of Regal REIT, including financial, operational and compliance controls and risk management functions.

PUBLIC FLOAT

As at 31st December, 2014, 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, 2014.

COMPLIANCE

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

REVIEW OF ANNUAL REPORT

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed this Annual Report for the year ended 31st December, 2014, in conjunction with Regal REIT's external auditors. This Annual Report was approved by the Board of the REIT Manager on 24th March, 2015.

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, 2014 in accordance with the Hong Kong Financial Reporting Standards, the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in the REIT Code.

The statement by the Regal REIT's external auditors, Messrs. Ernst & Young, about their reporting responsibilities on the financial statement of Regal REIT for the year ended 31st December, 2014 is set out in the section "Independent Auditors' Report" contained in this Annual Report.

CONNECTED PARTY TRANSACTIONS

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

- (i) the REIT Manager and the other companies or entities held or controlled by Regal Hotels International Holdings Limited ("RHIHL") (collectively, the "RHIHL Connected Persons Group");
- (ii) the 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) Savills Valuation and Professional Services Limited ("Savills"), the principal valuer of Regal REIT, and companies within the same group or otherwise "associated" with Savills (collectively, the "Valuer Connected Persons Group").

PHL CONNECTED PERSONS GROUP AND RHIHL CONNECTED PERSONS GROUP

(a) Share Purchase Agreement

On 28th June, 2013, Regal REIT, acting through the Trustee, entered into the Share Purchase Agreement with P&R Holdings Limited ("P&R Holdings", a joint venture equally owned by PHL and RHIHL, in turn, being a member of the PHL Connected Persons Group and the RHIHL Connected Persons Group), PHL, RHIHL and the REIT Manager, pursuant to which the Trustee agreed to acquire 100% of the issued share capital and shareholder loans of Plentiful Investments Limited, a wholly-owned subsidiary of P&R Holdings, which indirectly through its wholly-owned subsidiary, Tristan Limited (the "iclub Sheung Wan Hotel – Property Company"), holds the new hotel located at No. 138 Bonham Strand, Sheung Wan, Hong Kong and such acquisition was completed on 10th February, 2014 at a final total consideration of approximately HK\$1,581.1 million (the "SW Transaction"). The new hotel was named as "iclub Sheung Wan Hotel" under the "iclub by Regal" brand.

On the completion date of the SW 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 interior fit-out agency deed; (iii) the new lease agreement; (iv) the new lease guarantee; and (v) the new hotel management agreement in respect of the iclub Sheung Wan Hotel with members of the RHIHL Connected Persons Group and/or PHL Connected Persons Group, all dated 10th February, 2014 and in the agreed form set out in the Share Purchase Agreement.

References can be made to the related announcements dated 29th June, 2013, 18th July, 2013 and 10th February, 2014 and the related circular to Unitholders dated 29th June, 2013, as published by the REIT Manager, for further details of the SW Transaction.

(b) Option Agreement

On 28th June, 2013, Regal REIT, acting through the Trustee, entered into the Option Agreement with P&R Holdings, a member of the PHL Connected Persons Group and the RHIHL Connected Persons Group, PHL, RHIHL and the REIT Manager, pursuant to which the Trustee was granted a call option (the "NP Option") entitling Regal REIT (or its trustee or nominee), at the REIT Manager's sole discretion, to acquire 100% of the issued share capital and shareholder loans of Fortune Mine Limited, a wholly-owned subsidiary of P&R Holdings, which indirectly through its wholly-owned subsidiary, Wise Decade Investments Limited (the "iclub Fortress Hill Hotel-Property Company"), holds the new hotel located at No. 18 Merlin Street, North Point, Hong Kong (the "North Point Hotel"), then being developed by P&R Holdings, at an initial exercise price of HK\$1,650.0 million, based on the valuation of the property as of 25th June, 2013 by an independent property valuer on an as-completed basis (the "NP Transaction"). On 15th May, 2014, the Trustee (acting on the instructions of the REIT Manager) delivered the exercise notice to P&R Holdings to conditionally exercise the NP Option pursuant to the terms of the Option Agreement.

The updated valuation of the North Point Hotel, as appraised by an independent property valuer as of 30th April, 2014 (being the last month end date before the grant of the occupation permit for the North Point Hotel), was HK\$1,650.0 million which was the same as the initial appraised value of the North Point Hotel. As a result, the final exercise price for the NP Option was set as HK\$1,650.0 million, subject to a current asset adjustment, the amount of which was to be notified by P&R Holdings shortly prior to completion of the NP Transaction and subject to the cap of HK\$1.5 million.

On 28th July, 2014, Regal REIT completed the NP Transaction at a final exercise price of HK\$1,650.0 million plus a current asset adjustment of approximately HK\$1.4 million. The North Point Hotel was named as "iclub Fortress Hill Hotel" under the "iclub by Regal" brand and consisted of 32 storeys with 338 guestrooms. On the completion date of the NP Transaction, the Trustee (on behalf of Regal REIT) and/or the members of the Regal REIT Group entered into (i) the deed of tax indemnity; (ii) the interior fit-out agency deed; (iii) the new lease agreement; (iv) the new lease guarantee; and (v) the new hotel management agreement in respect of iclub Fortress Hill Hotel with the members of the RHIHL Connected Persons Group and/or the PHL Connected Persons Group, all dated 28th July, 2014 and in the agreed form set out in the Option Agreement.

References can be made to the related announcements dated 29th June, 2013, 18th July, 2013, 10th February, 2014, 15th May, 2014, 14th July, 2014 and 28th July, 2014 and the related circular to Unitholders dated 29th June, 2013, as published by the REIT Manager, for further details of the NP Transaction.

(c) SW Interior Fit-Out Agency Deed

To facilitate the carrying out of any work under the Interior Fit-Out Programme not completed as at completion of the SW Transaction, P&R Contracting Agency Limited (the "Interior Fit-Out Agent"), a member of the PHL Connected Persons Group and the RHIHL Connected Persons Group, PHL, RHIHL, the iclub Sheung Wan Hotel – Property Company and the REIT Manager entered into an interior fit-out agency deed (the "SW Interior Fit-Out Agency Deed") on 10th February, 2014, whereby the iclub Sheung Wan Hotel – Property Company appointed the Interior Fit-Out Agent to manage and settle the interior fit-out contracts on its behalf. The Interior Fit-Out Agent undertook to indemnify the iclub Sheung Wan Hotel – Property Company from and against all costs, losses and liabilities arising from the related interior fit-out contracts, and agreed to, among others, settle all payments on behalf of the iclub Sheung Wan Hotel – Property Company when due or payable and to procure that project managers, consultants and other professional advisers discharge their duties under the interior fit-out contracts.

(d) SW Deed of Tax Indemnity

At the completion date of the SW Transaction on 10th February, 2014, P&R Holdings, PHL, RHIHL, the Trustee (on behalf of Regal REIT), Plentiful Investments Limited and the iclub Sheung Wan Hotel – Property Company entered into a deed of tax indemnity (the "SW Deed of Tax Indemnity") in favour of the Trustee, Plentiful Investments Limited and the iclub Sheung Wan Hotel – Property Company. Pursuant to the SW 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 SW Transaction or in respect of any income, profits or gains earned, accrued or received by Plentiful Investments Limited and/or the iclub Sheung Wan Hotel – Property Company on or before completion of the SW Transaction. P&R Holdings, PHL and RHIHL are members of the PHL Connected Persons Group and/or the RHIHL Connected Persons Group and Plentiful Investments Limited and the iclub Sheung Wan Hotel - Property Company are members of Regal REIT Group.

(e) FH Interior Fit-Out Agency Deed

To facilitate the carrying out of any work under the Interior Fit-Out Programme not completed as at completion of the NP Transaction, the Interior Fit-Out Agent, a member of the PHL Connected Persons Group and the RHIHL Connected Persons Group, PHL, RHIHL, the iclub Fortress Hill Hotel – Property Company and the REIT Manager entered into an interior fit-out agency deed (the “FH Interior Fit-Out Agency Deed”) on 28th July, 2014, whereby the iclub Fortress Hill Hotel – Property Company appointed the Interior Fit-Out Agent to manage and settle the interior fit-out contracts on its behalf. The Interior Fit-Out Agent undertook to indemnify the iclub Fortress Hill Hotel – Property Company from and against all costs, losses and liabilities arising from the related interior fit-out contracts, and agreed to, among others, to settle all payments on behalf of the iclub Fortress Hill Hotel – Property Company when due or payable and to procure that project managers, consultants and other professional advisers discharge their duties under the interior fit-out contracts.

(f) FH Deed of Tax Indemnity

At the completion date of the NP Transaction on 28th July, 2014, P&R Holdings, PHL, RHIHL, the Trustee (on behalf of Regal REIT), Fortune Mine Limited and the iclub Fortress Hill Hotel – Property Company entered into a deed of tax indemnity (the “FH Deed of Tax Indemnity”) in favour of the Trustee, Fortune Mine Limited and the iclub Fortress Hill Hotel – Property Company. Pursuant to the FH 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 NP Transaction or in respect of any income, profits or gains earned, accrued or received by Fortune Mine Limited and/or the iclub Fortress Hill Hotel – Property Company on or before completion of the NP Transaction. P&R Holdings, PHL and RHIHL are members of the PHL Connected Persons Group and/or the RHIHL Connected Persons Group and Fortune Mine Limited and the iclub Fortress Hill 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 a first supplemental lease agreement on 12th February, 2010). The RHIHL Lessee is a member of the RHIHL Connected Persons Group. The Initial Hotels Lease Agreements are due to expire on 31st December, 2015 under their prevailing terms.

Under the terms of each Initial Hotels Lease Agreement, 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, the total contractual lease income under the Initial Hotels Lease Agreements amounted to HK\$841.3 million including Base Rent, Variable Rent and other income.

(b) Initial Hotels Management Agreements

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

Each Initial Hotel – Property Company is a party to the Initial Hotels Management Agreement on terms including that, upon the expiry or termination of any Initial Hotels Lease Agreement, the Hotel Manager will continue to manage the relevant Initial Hotel in accordance with the Initial Hotels Management Agreement. During the term of the Initial Hotels Lease Agreements, the indirect holding company of each Initial Hotel – Property Company shall maintain a cash reserve for furniture, fixtures and equipment for the respective Initial Hotels.

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

(c) Initial Hotels Lease Guarantees

RHIHL has guaranteed to pay all amounts from time to time owing or payable by the RHIHL Lessee to the Initial Hotel – Property Companies under the Initial Hotels Lease Agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. The 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 the 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 a management fee comprised of a base fee which is equal to 2% of the gross hotel revenue derived from iclub Wan Chai Hotel and an incentive fee which is 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.

(f) SW Lease Agreement

The iclub Sheung Wan Hotel – Property Company entered into a lease agreement (the "SW Lease Agreement") in relation to the leasing of the iclub Sheung Wan Hotel with the RHIHL Lessee on 10th February, 2014. The RHIHL Lessee is a member of the RHIHL Connected Persons Group. The term of the SW Lease Agreement expires on 31st December, 2019, which is extendable at the option of Regal REIT for a further 5 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 period from the commencement date of the SW Lease Agreement on 10th February, 2014 to 31st December, 2014, the total contractual cash rental income under the SW Lease Agreement amounted to approximately HK\$70.3 million.

(g) SW Lease Guarantee

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

(h) SW Hotel Management Agreement

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

(i) FH Lease Agreement

The iclub Fortress Hill Hotel – Property Company entered into a lease agreement (the "FH Lease Agreement") in relation to the leasing of the iclub Fortress Hill Hotel with the RHIHL Lessee on 28th July, 2014. The RHIHL Lessee is a member of the RHIHL Connected Persons Group. The term of the FH Lease Agreement expires on 31st December, 2019, which is extendable at the option of Regal REIT for a further 5 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 period from the commencement date of the FH Lease Agreement on 28th July, 2014 to 31st December, 2014, the total contractual cash rental income under the FH Lease Agreement amounted to approximately HK\$35.3 million.

(j) FH Lease Guarantee

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

(k) FH Hotel Management Agreement

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

REIT Manager Fees

Regal Portfolio Management Limited, a member of the RHIHL Connected Persons Group, was appointed as the REIT Manager of Regal REIT. REIT Manager fees aggregating HK\$134.7 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").

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

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

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

TRUSTEE CONNECTED PERSONS GROUP

Corporate Finance Transactions

On 11th January, 2013, R-REIT International Finance Limited (the "Issuer"), a special purpose vehicle wholly-owned by Regal REIT, established a US\$1.0 billion medium term note (the "Notes") programme (the "MTN Programme"). The Notes may be issued by the Issuer from time to time, and will be guaranteed by the Trustee. A fiscal and paying agency agreement dated 11th January, 2013 relating to the MTN Programme entered into by the Issuer, the Trustee (as guarantor), Deutsche Bank AG, Hong Kong Branch (as fiscal agent, transfer agent, paying agent and, in respect of each series of CMU Notes, as registrar), Deutsche Bank Luxembourg S.A. (as register in respect of each series of Notes other than the CMU Notes) and Deutsche Bank AG, Hong Kong Branch (as the CMU lodging and paying agent). Deutsche Bank Luxembourg S.A. and Deutsche Bank AG, Hong Kong Branch, are both members of the Trustee Connected Persons Group and 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\$2,000.

Ordinary Banking Services

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

Trustee Fees

DB Trustees (Hong Kong) Limited, a member of the Trustee Connected Persons Group, was appointed as the Trustee of Regal REIT. For services rendered in this capacity, Regal REIT paid the Trustee fees aggregating HK\$4.1 million pursuant to the Trust Deed for the year ended 31st December, 2014.

Waiver from Strict Compliance

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

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

VALUER CONNECTED PERSONS GROUP

Savills Valuation and Professional Services Limited (“Savills”), a member of the Valuer Connected Persons Group, was appointed as the principal valuer of Regal REIT. During the year, an amount of approximately HK\$1.5 million in aggregate was charged by Savills for the rendering of valuation and other 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, 2014, 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, 2014 ^(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 62.23% shareholding interest in PHL as at 31st December, 2014, 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.
- (vii) RHIHL is a listed subsidiary of PDBVI, which held an approximately 64.90% shareholding interest in RHIHL as at 31st December, 2014, 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, 2014.

Save as disclosed herein, there were no other persons who, as at 31st December, 2014, 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, 2014, 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, 2014 ⁽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 58.42% shareholding interest as at 31st December, 2014.
- (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, 2014.

Save as disclosed herein, as at 31st December, 2014, 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, 2014

	Notes	2014 HK\$'000	2013 HK\$'000
REVENUE			
Gross rental revenue	5	958,058	823,049
Gross hotel revenue	5	42,653	43,913
		<u>1,000,711</u>	<u>866,962</u>
Property and hotel operating expenses		<u>(29,340)</u>	<u>(29,856)</u>
Net rental and hotel income	5	971,371	837,106
Interest and other income	6	28,980	39,836
Depreciation	12	(8,531)	(8,147)
Fair value changes on investment properties	13	(266,929)	(90,749)
REIT Manager fees	7	(134,699)	(95,298)
Trust, professional and other expenses	8	(14,607)	(20,777)
Finance costs – excluding distributions to Unitholders	9	<u>(217,832)</u>	<u>(225,678)</u>
PROFIT BEFORE TAX AND DISTRIBUTIONS TO UNITHOLDERS		357,753	436,293
Income tax expense	10	<u>(119,299)</u>	<u>(93,735)</u>
PROFIT FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		238,454	342,558
Finance costs – distributions to Unitholders		<u>(511,417)</u>	<u>(469,070)</u>
LOSS FOR THE YEAR, AFTER DISTRIBUTIONS TO UNITHOLDERS		<u>(272,963)</u>	<u>(126,512)</u>
EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	11	<u>HK\$0.073</u>	<u>HK\$0.105</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2014

	Notes	2014 HK\$'000	2013 HK\$'000
PROFIT FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		238,454	342,558
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Changes in fair values of cash flow hedges		(3,954)	(7,380)
Transfer from hedging reserve to consolidated statement of profit or loss		6,010	6,103
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		2,056	(1,277)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Loss on revaluation of property	12	(790)	(34,876)
Income tax effect	22	131	5,755
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(659)	(29,121)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		1,397	(30,398)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		239,851	312,160

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2014

	Notes	31st December, 2014 HK\$'000	31st December, 2013 HK\$'000
Non-current assets			
Property, plant and equipment	12	691,000	700,000
Investment properties	13	23,428,000	20,380,000
Deposit	15	—	948,000
Total non-current assets		<u>24,119,000</u>	<u>22,028,000</u>
Current assets			
Accounts receivable	14	56,457	54,897
Prepayments, deposits and other receivables	15	5,795	1,018,293
Due from related companies	28(b)	—	209
Tax recoverable		—	1,470
Restricted cash	16	47,156	51,868
Cash and cash equivalents	17	59,094	48,214
Total current assets		<u>168,502</u>	<u>1,174,951</u>
Total assets		<u>24,287,502</u>	<u>23,202,951</u>
Current liabilities			
Accounts payable	18	94,292	131,936
Deposits received		124	2,673
Due to related companies	28(b)	6,199	—
Other payables and accruals		37,216	38,403
Interest-bearing bank borrowings	19	63,000	154,794
Derivative financial instruments	21	2,024	—
Tax payable		32,015	7,818
Total current liabilities		<u>234,870</u>	<u>335,624</u>
Net current assets/(liabilities)		<u>(66,368)</u>	<u>839,327</u>
Total assets less current liabilities		<u>24,052,632</u>	<u>22,867,327</u>

	Notes	31st December, 2014 HK\$'000	31st December, 2013 HK\$'000
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	19	6,170,739	4,762,627
Other borrowings	20	1,926,604	1,922,720
Derivative financial instruments	21	—	4,076
Deposits received		2,653	—
Deferred tax liabilities	22	450,066	403,768
Total non-current liabilities		8,550,062	7,093,191
Total liabilities, excluding net assets attributable to Unitholders			
		8,784,932	7,428,815
Net assets attributable to Unitholders			
		15,502,570	15,774,136
Number of Units in issue			
	23	3,257,431,189	3,257,431,189
Net asset value per Unit attributable to Unitholders			
	24	HK\$4.759	HK\$4.843

The consolidated financial statements on pages 62 to 113 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 24th March, 2015 and were signed on its behalf by:

SIMON LAM MAN LIM
Executive Director

LO YUK SUI
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31st December, 2014

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

For the year ended 31st December, 2013

	Units HK\$'000	Capital reserve HK\$'000	Hedging reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets as at 1st January, 2013	8,432,356	15,876	(1,497)	261,163	7,223,148	15,931,046
Profit for the year	—	—	—	—	342,558	342,558
Other comprehensive loss for the year:						
Cash flow hedges	—	—	(1,277)	—	—	(1,277)
Loss on revaluation of property, net of tax	—	—	—	(29,121)	—	(29,121)
Total comprehensive income for the year, before distributions to Unitholders	—	—	(1,277)	(29,121)	342,558	312,160
Transfer of depreciation on hotel properties	—	—	—	(2,273)	2,273	—
Finance costs – distributions to Unitholders	—	—	—	—	(469,070)	(469,070)
Net assets as at 31st December, 2013	8,432,356	15,876	(2,774)	229,769	7,098,909	15,774,136

DISTRIBUTION STATEMENT

For the year ended 31st December, 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Profit for the year, before distributions to Unitholders		238,454	342,558
Adjustments:			
Difference in accounting rental income and contractual cash rental income		(5,456)	—
Amounts set aside for the furniture, fixtures and equipment reserve	(d)	(41,425)	(38,867)
Amortisation of debt establishment costs		19,144	56,377
Fair value changes on investment properties		266,929	90,749
Depreciation		8,531	8,147
Foreign exchange differences, net		318	—
Deferred tax charge		46,429	38,112
Distributable income for the year	(a) & (b)	532,924	497,076
		HK\$	HK\$
Distributions per Unit:			
Interim	(a)	0.074	0.067
Final	(b) & (c)	0.088	0.083
		0.162	0.150

Notes:

- (a) Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's total distributable income 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, 2014, resulting in a total amount of interim distribution of HK\$241.0 million.

- (b) Pursuant to the Trust Deed, the REIT Manager determines the date (the "Record Date") in respect of each distribution period for the purpose of establishing Unitholder entitlements to distributions. The Record Date has been set as 18th May, 2015 in respect of the final distribution for the period from 1st July, 2014 to 31st December, 2014. The final distribution will be paid out to Unitholders on or about 26th May, 2015. The total amount of final distribution to be paid to Unitholders of HK\$286.7 million is arrived at based on the final distribution per Unit of HK\$0.088 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\$286.7 million, amounted to HK\$527.7 million or 99.0% of the Total Distributable Income for the year.
- (c) The final distribution of HK\$0.088 per Unit for the period from 1st July, 2014 to 31st December, 2014, involving an amount of HK\$286.7 million, was resolved and declared by the REIT Manager on 24th March, 2015. 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, 2015. The final distribution for the period from 1st July, 2013 to 31st December, 2013 of HK\$270.4 million is included in the amount of distributions paid during the year as reported in the current year consolidated financial statements.
- (d) Amounts set aside by Regal REIT for the furniture, fixtures and equipment reserve (the "FF&E Reserve") with respect to Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels" and each referred to as the "Initial Hotel"), and iclub Wan Chai Hotel aggregated HK\$41.4 million (2013: HK\$38.9 million).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2014

	Notes	2014 HK\$'000	2013 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and distributions to Unitholders		357,753	436,293
Adjustments for:			
Difference in accounting rental income and contractual cash rental income	5	(5,456)	—
Fair value changes on investment properties	13	266,929	90,749
Interest income	6	(28,980)	(39,542)
Finance costs - excluding distributions to Unitholders	9	217,832	225,678
Depreciation	12	8,531	8,147
		<u>816,609</u>	<u>721,325</u>
Decrease in accounts receivable		3,896	43,319
Increase in prepayments, deposits and other receivables		(3,730)	(126)
Decrease/(increase) in amounts due from related companies		209	(209)
Increase in restricted cash		(104)	(3)
Increase/(decrease) in accounts payable		(37,644)	58,582
Increase/(decrease) in deposits received		104	(5)
Increase/(decrease) in amounts due to related companies		6,199	(210)
Increase/(decrease) in other payables and accruals		(2,037)	18,044
		<u>783,502</u>	<u>840,717</u>
Cash generated from operations		783,502	840,717
Interest received		222	2,286
Interest paid		(195,630)	(161,663)
Hong Kong profits tax paid		(47,203)	(74,637)
		<u>540,891</u>	<u>606,703</u>
Net cash flows from operating activities		540,891	606,703
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(321)	(3,023)
Additions to investment properties		(84,929)	(178,749)
Acquisitions of investment properties		(3,230,000)	—
Decrease/(increase) in deposits		1,948,000	(1,948,000)
Decrease/(increase) in restricted cash		4,678	(7,025)
Interest received		44,986	21,028
		<u>(1,317,586)</u>	<u>(2,115,769)</u>
Net cash flows used in investing activities		(1,317,586)	(2,115,769)

	Notes	2014 HK\$'000	2013 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings, net of debt establishment costs		1,953,254	4,588,480
Repayment of bank borrowings		(654,400)	(4,507,200)
Increase in other borrowings, net of debt establishment costs		—	1,920,309
Distributions paid		(511,417)	(469,070)
Decrease/(increase) in restricted cash		138	(603)
		<hr/>	<hr/>
Net cash flows from financing activities		787,575	1,531,916
		<hr/>	<hr/>
NET CHANGE IN CASH AND CASH EQUIVALENTS		10,880	22,850
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		48,214	25,364
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		59,094	48,214
		<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	59,094	48,214
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2014

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 (the "Listing Date"). 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 and the sixth supplemental trust deed dated 21st July, 2011) and the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission (the "SFC").

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31st December, 2014. 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 in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in other comprehensive income; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and a new interpretation for the first time for the current year financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	<i>Investment Entities</i>
Amendments to HKAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to HKAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets</i>
Amendments to HKAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>
Amendment to HKFRS 2 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Definition of Vesting Condition¹</i>
Amendment to HKFRS 3 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Accounting for Contingent Consideration in a Business Combination¹</i>
Amendment to HKFRS 13 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Short-term Receivables and Payables</i>
Amendment to HKFRS 1 included in <i>Annual Improvements 2011-2013 Cycle</i>	<i>Meaning of Effective HKFRSs</i>

¹ Effective from 1st July, 2014

Other than explained below regarding the impact of amendments to HKAS 32 and HKAS 39, and amendment to HKFRS 13 included in *Annual Improvements 2010-2012 Cycle*, the adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

- (a) The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have had no impact on the Group as the Group does not have any offsetting arrangement.

- (b) The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives to a central counterparty during the current and prior years.
- (c) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

2.3 NEW AND REVISED HKFRSs NOT YET ADOPTED

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

HKFRS 9	<i>Financial Instruments</i> ⁴
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exemption</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> ²
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ²
HKFRS 14	<i>Regulatory Deferral Accounts</i> ⁵
HKFRS 15	<i>Revenue from Contracts with Customers</i> ³
Amendments to HKAS 1	<i>Disclosure Initiative</i> ²
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> ²
Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contributions</i> ¹
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> ²
<i>Annual Improvements 2010-2012 Cycle</i>	Amendments to a number of HKFRSs ¹
<i>Annual Improvements 2011-2013 Cycle</i>	Amendments to a number of HKFRSs ¹
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs ²

¹ Effective for annual periods beginning on or after 1st July, 2014

² Effective for annual periods beginning on or after 1st January, 2016

³ Effective for annual periods beginning on or after 1st January, 2017

⁴ Effective for annual periods beginning on or after 1st January, 2018

⁵ Effective for an entity that first adopted HKFRSs for its annual financial statements beginning on or after 1st January, 2016 and therefore is not applicable to the Group

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1st January, 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

HKFRS 15 establishes a new five-step model that will apply to 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. The Group expects to adopt HKFRS 15 on 1st January, 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

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

The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1st January, 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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.

Unitholders' funds

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

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Related parties

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

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

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (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).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the consolidated statement of profit or loss. Any subsequent revaluation surplus is credited to the consolidated statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rate used for hotel properties is over the lease term (for land) and over the shorter of the lease term and 2.5% (for building together with furniture, fixtures and equipment).

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

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

Investment properties

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

Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the year of the retirement or disposal.

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement of loans and receivables

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

Cash flow hedges

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

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

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

Current versus non-current classification

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

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

Provisions

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

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

Cash and cash equivalents

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

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

Income tax

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

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

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Operating leases

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

Revenue recognition

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

- (a) Base Rent from operating leases, on a straight-line basis over the terms of the relevant leases;
- (b) Variable Rent, in the accounting period in which they are earned in accordance with the terms of the respective agreements;
- (c) hotel revenue, in the period in which such 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 and presentation 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.

Derivative financial instruments and hedging activities

Derivative financial instruments and hedging activities require the Group to make judgements on the designation of the hedging relationship of the Group's derivatives and their hedge effectiveness. These judgements determine if the changes in fair values of the derivative instruments are recognised directly in other comprehensive income in the hedging reserve or any ineffective element is recognised in the consolidated statement of profit or loss.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. The Group uses judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group uses a discounted cash flow analysis for its derivative financial instruments that are not traded in active markets.

Estimation uncertainty

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

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

The fair value of each investment property and property, plant and equipment is individually determined at the end of each reporting period by an independent valuer based on a market value assessment. The valuer has relied on the discounted cash flow analysis and the capitalisation of income approach as its primary methods, supported by the direct comparison method. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy or occupancy, and cash flow profile. The discounted cash flow projections of each investment property and property, plant and equipment are based on reliable estimates of expected future cash flows, supported by the terms of any existing leases, other contracts, projection of hotel operating income and (when possible) by external evidence, and using discount rates that reflect current market assessments of the uncertainty in the amounts and timing of the cash flows. In respect of the leases of each investment property and property, plant and equipment, due consideration has also been given to the expectation of the renewal of the leases with the Government of the Hong Kong Special Administrative Region upon expiry without paying any land premiums, which is a widely accepted practice used in the property market, including by other real estate investment trusts in Hong Kong.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profit will be available against which the carryforward of unused tax losses can be utilised. Recognition of deferred tax primarily involves judgements and estimations regarding the future performance of the Group. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portions or all of the deferred tax assets will ultimately be realised, such as tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amounts of deferred tax assets and related taxable profits projections are reviewed at the end of each reporting period.

4. OPERATING SEGMENT INFORMATION

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

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

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

The operating segments of the Group for the year ended 31st December, 2013 are as follows:

	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Segment revenue			
Gross rental revenue	817,927	5,122	823,049
Gross hotel revenue	—	43,913	43,913
Total	<u>817,927</u>	<u>49,035</u>	<u>866,962</u>
Segment results	<u>807,184</u>	<u>29,922</u>	<u>837,106</u>
Fair value changes on investment properties	(108,749)	18,000	(90,749)
Depreciation	—	(8,147)	(8,147)
Interest and other income			39,836
REIT Manager fees			(95,298)
Trust, professional and other expenses			(20,777)
Finance costs - excluding distributions to Unitholders			(225,678)
Profit before tax and distributions to Unitholders			<u>436,293</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, 2014, the Group's segment assets, comprised of aggregate fair values of the investment properties and property, plant and equipment in the hotel properties segment and the mixed use property segment, amounted to HK\$23,230,000,000 (2013: HK\$20,200,000,000) and HK\$889,000,000 (2013: HK\$880,000,000), 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, 2014		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditures	<u>84,929</u>	<u>321</u>	<u>85,250</u>

	Year ended 31st December, 2013		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditures	<u>178,749</u>	<u>3,023</u>	<u>181,772</u>

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

Information about a major customer

Revenue of HK\$952,301,000 (2013: HK\$817,927,000) 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, which is also the Group's turnover, represents the gross rental revenue received and receivable from its investment properties, and gross hotel revenue during the year.

The net rental and hotel income represents the aggregate of:

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

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

	Notes	2014 HK\$'000	2013 HK\$'000
Gross rental revenue			
Rental income			
– Initial Hotels	(a)	830,572	807,497
– iclub Wan Chai Hotel – Non-hotel portions		5,757	5,122
– iclub Sheung Wan Hotel	(b)	73,792	—
– iclub Fortress Hill Hotel	(c)	37,227	—
Other income		10,710	10,430
		<u>958,058</u>	<u>823,049</u>
Property operating expenses		<u>(11,539)</u>	<u>(11,221)</u>
Net rental income		<u>946,519</u>	<u>811,828</u>
Gross hotel revenue			
Hotel operating expenses		<u>(17,801)</u>	<u>(18,635)</u>
Net hotel income		<u>24,852</u>	<u>25,278</u>
Net rental and hotel income		<u>971,371</u>	<u>837,106</u>

Notes:

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

	2014 HK\$'000	2013 HK\$'000
Base Rent	743,000	734,000
Variable Rent	87,572	73,497
	<u>830,572</u>	<u>807,497</u>

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

	2014 HK\$'000	2013 HK\$'000
Contractual cash rental income	70,301	—
Difference in accounting rental income and contractual cash rental income	3,491	—
	<u>73,792</u>	<u>—</u>

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

	2014 HK\$'000	2013 HK\$'000
Contractual cash rental income	35,262	—
Difference in accounting rental income and contractual cash rental income	1,965	—
	<u>37,227</u>	<u>—</u>

6. INTEREST AND OTHER INCOME

	2014 HK\$'000	2013 HK\$'000
Bank interest income	222	2,286
Interest income on deposits	28,758	37,256
Foreign exchange differences, net	—	256
Sundry	—	38
	<u>28,980</u>	<u>39,836</u>

7. REIT MANAGER FEES

	2014	2013
	HK\$'000	HK\$'000
Base Fees	72,863	69,602
Variable Fees	29,536	25,696
Acquisition Fees	32,300	—
	<u>134,699</u>	<u>95,298</u>

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

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

For the financial year 2014, 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 published on 6th December, 2013.

8. TRUST, PROFESSIONAL AND OTHER EXPENSES

	2014 HK\$'000	2013 HK\$'000
Auditors' remuneration:		
Audit fees	1,640	1,520
Non-audit fees	305	2,470
Legal and other professional fees	5,629	10,119
Trustee fees	4,058	3,735
Valuation fees	990	730
Foreign exchange differences, net	318	—
Other expenses	1,667	2,203
	<u>14,607</u>	<u>20,777</u>

Regal REIT did not appoint any directors and the Group did not engage any employees during the year (2013: Nil) and, accordingly, no director and employee benefit expenses were incurred during the year (2013: Nil).

9. FINANCE COSTS - EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

	2014 HK\$'000	2013 HK\$'000
Total interest expenses on financial liabilities not at fair value through profit or loss:		
Interest expenses on interest-bearing bank borrowings wholly repayable within five years	109,110	106,912
Interest expenses on other borrowings wholly repayable within five years	81,566	55,549
Amortisation of debt establishment costs	19,144	56,377
	<u>209,820</u>	<u>218,838</u>
Fair value changes on derivative financial instruments		
– cash flow hedges (transfer from hedging reserve)	6,010	6,103
Others	2,002	737
	<u>217,832</u>	<u>225,678</u>

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2014	2013
	HK\$'000	HK\$'000
Charge for the year	73,820	55,925
Overprovision in prior years	(950)	(302)
Deferred (note 22)	46,429	38,112
Total tax charge for the year	<u>119,299</u>	<u>93,735</u>

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% (2013: 16.5%) to the tax charge at the Group's effective tax rate is as follows:

	2014	2013
	HK\$'000	HK\$'000
Profit before tax and distributions to Unitholders	<u>357,753</u>	<u>436,293</u>
Tax at the statutory tax rate	59,029	71,988
Adjustments in respect of current tax of previous periods	(950)	(302)
Income not subject to tax	(4,782)	(378)
Expenses not deductible for tax	64,614	21,081
Others	<u>1,388</u>	<u>1,346</u>
Tax charge at the Group's effective rate	<u>119,299</u>	<u>93,735</u>

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\$238,454,000 (2013: HK\$342,558,000) and the weighted average of 3,257,431,189 Units in issue during the year (2013: 3,257,431,189 Units). The basic earnings per Unit attributable to Unitholders for the year amounted to HK\$0.073 (2013: HK\$0.105).

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.

12. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK\$'000
At 1st January, 2013	740,000
Additions	3,023
Deficit on revaluation	(34,876)
Depreciation provided during the year	(8,147)
	<hr/>
At 31st December, 2013 and 1st January, 2014	700,000
Additions	321
Deficit on revaluation	(790)
Depreciation provided during the year	(8,531)
	<hr/>
At 31st December, 2014	<u>691,000</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 Savills Valuation and Professional Services Limited ("Savills"), an independent professional property valuer and the principal valuer of Regal REIT, at HK\$691,000,000 as at 31st December, 2014. A revaluation deficit of HK\$790,000 resulting from the 31st December, 2014 valuation has been charged to other comprehensive income.

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

The iclub Wan Chai Hotel is situated in Hong Kong, is held under a long term lease and 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\$419,368,000 had such assets been stated in the consolidated financial statements at cost less accumulated depreciation.

Further particulars of the Group's hotel properties are included on page 171.

13. INVESTMENT PROPERTIES

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

	Hotel properties HK\$'000	Commercial properties HK\$'000	Total HK\$'000
At 1st January, 2013	20,130,000	162,000	20,292,000
Fair value changes	(108,749)	18,000	(90,749)
Capital expenditures for the year	178,749	—	178,749
At 31st December, 2013 and 1st January, 2014	20,200,000	180,000	20,380,000
Additions (note 25)	3,230,000	—	3,230,000
Fair value changes	(284,929)	18,000	(266,929)
Capital expenditures for the year	84,929	—	84,929
At 31st December, 2014	<u>23,230,000</u>	<u>198,000</u>	<u>23,428,000</u>

The Group's investment properties were valued by Savills, an independent professional property valuer and the principal valuer of Regal REIT, at HK\$23,428,000,000 as at 31st December, 2014. 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 (see note 30).

The Group's investment properties are situated in Hong Kong and are held under medium to long term leases. Three of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel, together with iclub Sheung Wan Hotel and iclub Fortress Hill Hotel have been pledged to secure banking facilities granted to the Group (note 19).

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

14. ACCOUNTS RECEIVABLE

	2014 HK\$'000	2013 HK\$'000
Difference in accounting rental income and contractual cash rental income	5,456	—
Variable Rent receivables	49,724	53,688
Other accounts receivable	1,277	1,209
	<u>56,457</u>	<u>54,897</u>

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

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

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

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

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2014 HK\$'000	2013 HK\$'000
Prepayments	548	408
Deposits	5,247	1,949,657
Other receivables	—	16,228
	<u>5,795</u>	<u>1,966,293</u>

Deposits in the amount of HK\$1,212,000 (2013: 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.

Pursuant to the share purchase agreement (the "Share Purchase Agreement") and the option agreement (the "Option Agreement") both entered into between Regal REIT and P&R Holdings Limited ("P&R Holdings") and dated 28th June, 2013, deposits and an option fee in the amount of HK\$1,938,000,000 and HK\$10,000,000, respectively, were placed with a related company with respect to the acquisitions of the two hotels located in Sheung Wan and North Point. As at 31st December, 2013, save for the deposits of HK\$1,938,000,000, which are interest-bearing at 4.3047% per annum, the remaining balances are unsecured, interest-free and repayable on demand.

16. RESTRICTED CASH

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

17. CASH AND CASH EQUIVALENTS

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

18. ACCOUNTS PAYABLE

	2014 HK\$'000	2013 HK\$'000
Amounts due to related companies	93,917	131,792
Other accounts payable	375	144
	<u>94,292</u>	<u>131,936</u>

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

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

19. INTEREST-BEARING BANK BORROWINGS

	2014 HK\$'000	2013 HK\$'000
Interest-bearing bank borrowings	6,295,000	4,977,400
Debt establishment costs	(61,261)	(59,979)
	<u>6,233,739</u>	<u>4,917,421</u>
Portion classified as current liabilities	(63,000)	(154,794)
Non-current portion	<u>6,170,739</u>	<u>4,762,627</u>
Analysed into bank loans repayable:		
Within one year	63,000	154,794
In the second year	—	319,841
In the third to fifth years, inclusive	<u>6,170,739</u>	<u>4,442,786</u>
	<u>6,233,739</u>	<u>4,917,421</u>

The agreement for a term loan facility up to HK\$4,500.0 million and a revolving facility of up to HK\$300.0 million (the "2013 IH Facilities") was entered into on 23rd July, 2013 by Regal REIT, through its wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, for a term of five years to July 2018, and is secured by three of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel. As at 31st December, 2014, the outstanding amount on the 2013 IH Facilities was HK\$4,520.0 million, comprised of the full amount of the term loan facilities of HK\$4,500.0 million and the amount outstanding under the revolving facility of HK\$20.0 million. The Group entered into interest rate swap arrangements to hedge against interest rate exposure for the term loan facility for a notional amount of HK\$3.0 billion, details of which are set out in note 21.

Regal REIT, through its wholly-owned subsidiary, Sonnix Limited, had a bilateral loan facility of HK\$340.0 million (the "2012 WC Facility") for the iclub Wan Chai Hotel with an original expiry in February 2015. On 22nd December, 2014, a new term loan facility agreement for a principal amount of up to HK\$440.0 million (the "2014 WC Facility"), which is secured by the iclub Wan Chai Hotel, was entered into for a new term of 5 years to December 2019. The 2014 WC Facility was fully drawn with the proceeds being applied mainly for the repayment of the 2012 WC Facility. As at 31st December, 2014, the outstanding loan facility was HK\$440.0 million.

On 10th February, 2014, Regal REIT, through its wholly-owned subsidiary, Tristan Limited, arranged for 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 facility of HK\$158.0 million, and secured by the iclub Sheung Wan Hotel (the "2014 SW Facilities"). The 2014 SW Facilities have a term of 5 years to February 2019 and have no interest rate hedging in place. As at 31st December, 2014, the utilized 2014 SW Facilities were comprised of the full term loan amount of HK\$632.0 million and an amount of HK\$43.0 million outstanding under the revolving facility.

On 28th July, 2014, Regal REIT, through its wholly-owned subsidiary, Wise Decade Investments Limited, arranged for 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 facility of HK\$165.0 million, and secured by the iclub Fortress Hill Hotel (the "2014 FH Facilities"). The 2014 FH Facilities have a term of 5 years to July 2019 and have no interest rate hedging in place. As at 31st December, 2014, the utilized 2014 FH Facilities comprised only of the full term loan amount of HK\$660.0 million.

As at 31st December, 2014, the outstanding loan facilities bear interest at the Hong Kong Interbank Offered Rates plus an interest margin ranging from 1.4% per annum to 1.62% per annum (2013: ranging from 1.62% per annum to 2.6% per annum).

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

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

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

20. OTHER BORROWINGS

	2014 HK\$'000	2013 HK\$'000
Other borrowings repayable in the third to fifth years, inclusive, at nominal amount	1,938,550	1,938,250
Discount and issue costs	<u>(11,946)</u>	<u>(15,530)</u>
	<u>1,926,604</u>	<u>1,922,720</u>

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

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Liabilities	
	2014 HK\$'000	2013 HK\$'000
Interest rate swaps – cash flow hedges	2,024	4,076
Portion classified as current liabilities	<u>(2,024)</u>	<u>—</u>
Non-current portion	<u>—</u>	<u>4,076</u>

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to a certain portion of its floating rate term loans. As at 31st December, 2014, the interest rate swaps had an aggregate amount of HK\$3.0 billion (2013: HK\$3.0 billion) (note 19). These interest rate swaps mature on 9th March, 2015 and the fixed swap interest rates range from 0.355% per annum to 0.483% per annum (2013: 0.355% per annum to 0.483% per annum) as at 31st December, 2014.

22. DEFERRED TAX

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

	Fair value adjustments arising from revaluation of property, plant and equipment HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
Gross deferred tax assets/(liabilities) at 1st January, 2013	(51,607)	(326,783)	6,979	(371,411)
Deferred tax credited to other comprehensive income during the year	5,755	—	—	5,755
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 10)	449	(37,719)	(842)	(38,112)
Gross deferred tax assets/(liabilities) at 31st December, 2013	<u>(45,403)</u>	<u>(364,502)</u>	<u>6,137</u>	<u>(403,768)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2014	(45,403)	(364,502)	6,137	(403,768)
Deferred tax credited to other comprehensive income during the year	131	—	—	131
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 10)	454	(52,095)	5,212	(46,429)
Gross deferred tax assets/(liabilities) at 31st December, 2014	<u>(44,818)</u>	<u>(416,597)</u>	<u>11,349</u>	<u>(450,066)</u>

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

23. NUMBER OF UNITS IN ISSUE

	Number of Units	
	2014	2013
At beginning and end of the year	<u>3,257,431,189</u>	<u>3,257,431,189</u>

24. NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per Unit attributable to Unitholders is calculated by dividing the net assets attributable to Unitholders as at 31st December, 2014 of HK\$15,502,570,000 (2013: HK\$15,774,136,000) by the number of Units in issue of 3,257,431,189 (2013: 3,257,431,189) as at that date.

25. ACQUISITIONS OF INVESTMENT PROPERTIES

Pursuant to the Share Purchase Agreement, Regal REIT completed the acquisition of a new hotel, iclub Sheng Wan Hotel, on 10th February, 2014 at a total consideration of HK\$1,581.1 million, comprised of the purchase price of HK\$1,580.0 million and a current assets adjustment of HK\$1.1 million. Such consideration was settled by: (a) applying the deposit of HK\$948.0 million; (b) drawing down the term loan of HK\$632.0 million under the 2014 SW Facilities; and (c) using Regal REIT's internal resources in the amount of HK\$1.1 million.

Pursuant to the Option Agreement, Regal REIT completed the acquisition of another new hotel, iclub Fortress Hill Hotel, on 28th July, 2014 at a total consideration of HK\$1,651.4 million, comprised of the final exercise price of HK\$1,650.0 million and a current assets adjustment of HK\$1.4 million. The consideration was settled by: (a) applying the refundable cash collateral of HK\$990.0 million; (b) drawing down the new term loan of HK\$660.0 million under the 2014 FH Facilities; and (c) using Regal REIT's internal resources in the amount of HK\$1.4 million.

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, 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	2014 HK\$'000	2013 HK\$'000
Within one year	944,732	752,618
In the second to fifth years, inclusive	246,328	29,193
After five years	442	23,066
	<u>1,191,502</u>	<u>804,877</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, 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2014 HK\$'000	2013 HK\$'000
Within one year	8,828	8,677
In the second to fifth years, inclusive	2,408	29,193
After five years	442	23,066
	<u>11,678</u>	<u>60,936</u>

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

During the year ended 31st December, 2014, the total minimum lease payments under operating leases in respect of land and buildings included in property and hotel operating expenses of HK\$8,911,000 (2013: HK\$8,713,000) 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:

	2014	2013
	HK\$'000	HK\$'000
Authorised, but not contracted for	110,642	37,592

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 RHIHL Group
Savills Valuation and Professional Services Limited	The principal valuer of the Group

(a) Transactions with connected/related parties:

	Notes	2014 HK\$'000	2013 HK\$'000
Contractual rental income received/receivable from the RHIHL Group	(i)	946,845	817,927
Hotel management fees charged by the RHIHL Group	(ii)	(2,161)	(2,209)
Marketing fees charged by the RHIHL Group	(iii)	(427)	(439)
Building management fees charged by the PHL Group	(iv)	(454)	(454)
Interest income on deposits	(v)	28,758	37,256
REIT Manager fees	(vi)	(134,699)	(95,298)
Trustee fees	(vii)	(4,058)	(3,735)
Valuation fees paid/payable to the principal valuer	(viii)	(1,455)	(1,090)
Acquisitions of investment properties and related current assets	(ix)	(3,232,561)	—
Meeting fees charged by the RHIHL Group	(x)	(693)	—

Notes:

- (i) The rental income earned by the Group was in accordance with the relevant lease agreements with respect to the Initial Hotels, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel.
- (ii) Hotel management fees in respect of iclub Wan Chai Hotel – Hotel portion were comprised of (a) a base fee, for an amount based on 2% of the gross hotel revenue, and (b) an incentive fee based on 5% of the excess of the gross operating profit over the base fee and fixed charges in accordance with the corresponding hotel management agreement.
- (iii) The marketing fees in respect of iclub Wan Chai Hotel – Hotel portion were charged at 1% of the gross hotel revenue of iclub Wan Chai Hotel – Hotel portion in accordance with the corresponding hotel management agreement.
- (iv) The building management fees were charged at a mutually agreed amount payable on a monthly basis in respect of iclub Wan Chai Hotel – Non-hotel portions.
- (v) The interest income earned by the Group was in accordance with the relevant agreements with respect to the acquisitions of two hotels located in Sheung Wan and North Point.
- (vi) The REIT Manager is entitled to receive Base Fees, Variable Fees and Acquisition Fees, details of which, including the terms, are set out in note 7 to the consolidated financial statements.
- (vii) The Trustee is entitled to receive trustee fees (calculated and payable quarterly) at rates ranging from 0.015% per annum to 0.025% per annum based on the value of all the assets of Regal REIT as at the end of the reporting period subject to a minimum of HK\$66,000 per month.
- (viii) The valuation fees were charged by the principal valuer in accordance with the terms of the relevant agreements.
- (ix) The Group acquired investment properties and related current assets from P&R Holdings in accordance with the Share Purchase Agreement and the Option Agreement, details of which are set out in note 25 to the consolidated financial statements.
- (x) The meeting fees were charged at mutually agreed amounts.

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

	Notes	2014 HK\$'000	2013 HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables	(i)	49,724	53,688
Accounts payable to related companies	(ii)	(93,917)	(131,792)
Other payables	(ii)	(693)	—
Amounts due from/(to) related companies	(ii)	(6,199)	209
Net amounts due from the PHL Group:			
Deposits paid	(ii)	1,212	1,212
Net amounts due from P&R Holdings:			
Deposits	(iii)	—	1,948,000
Interest receivable on deposits	(iii)	—	16,228
Net amounts due to:			
The Trustee	(iv)	(961)	(828)
The principal valuer	(v)	(770)	(550)
Restricted and non-restricted bank balances with the Deutsche Bank Group			
	(vi)	129	123

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 amounts are unsecured and repayable in accordance with the terms of the relevant agreements.
 - (iv) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
 - (v) The amount is repayable in accordance with the terms of the relevant agreement.
 - (vi) 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 2014, the RHIHL Group provided third party guarantees as security deposit for an amount of HK\$371.5 million (2013: HK\$367.0 million), which is equivalent to six months Base Rent for the year 2014, issued by a licensed bank in Hong Kong.
- (d) Under a deed of trademarks licence, the RHIHL Group granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trademarks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.
- (e) On 23rd December, 2010, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of the hotel portion of iclub Wan Chai Hotel for a 10-year term commencing on 1st January, 2011 and expiring on 31st December, 2020.

- (f) On 10th February, 2014, the Group entered into a new hotel management agreement with a member of the RHIHL Group in respect of the management of the business of iclub Sheung Wan Hotel for a 10-year term commencing on 10th February, 2014 and expiring on 9th February, 2023.
- (g) On 28th July, 2014, the Group entered into another new hotel management agreement with a member of the RHIHL Group in respect of the management of the business of iclub Fortress Hill Hotel for a 10-year term commencing on 28th July, 2014 and expiring on 27th July, 2023.

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	
	2014 HK\$'000	2013 HK\$'000
Accounts receivable	56,457	54,897
Financial assets included in prepayments, deposits and other receivables	4,251	1,007,885
Due from related companies	—	209
Restricted cash	47,156	51,868
Cash and cash equivalents	59,094	48,214
	<u>166,958</u>	<u>1,163,073</u>

Financial liabilities

	2014		
	Financial liabilities at fair value through profit or loss – designated as hedging instruments HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Accounts payable	—	94,292	94,292
Deposits received	—	2,777	2,777
Other payables and accruals	—	37,216	37,216
Interest-bearing bank borrowings	—	6,233,739	6,233,739
Other borrowings	—	1,926,604	1,926,604
Derivative financial instruments	2,024	—	2,024
	<u>2,024</u>	<u>8,294,628</u>	<u>8,296,652</u>

	2013		
	Financial liabilities at fair value through profit or loss – designated as hedging instruments HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Accounts payable	—	131,936	131,936
Deposits received	—	2,673	2,673
Other payables and accruals	—	38,403	38,403
Interest-bearing bank borrowings	—	4,917,421	4,917,421
Other borrowings	—	1,922,720	1,922,720
Derivative financial instruments	4,076	—	4,076
	<u>4,076</u>	<u>7,013,153</u>	<u>7,017,229</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.

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

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

Fair value hierarchy

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

Assets measured at fair value:

As at 31st December, 2014

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Property, plant and equipment	—	—	691,000	691,000
Investment properties	—	—	23,428,000	23,428,000
	<u>—</u>	<u>—</u>	<u>24,119,000</u>	<u>24,119,000</u>

As at 31st December, 2013

	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	—	—	700,000	700,000
Investment properties	—	—	20,380,000	20,380,000
	<u>—</u>	<u>—</u>	<u>21,080,000</u>	<u>21,080,000</u>

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2013: Nil).

Liabilities measured at fair value:

As at 31st December, 2014

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Derivative financial instruments	—	2,024	—	2,024
	<u>—</u>	<u>2,024</u>	<u>—</u>	<u>2,024</u>

As at 31st December, 2013

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Derivative financial instruments	—	4,076	—	4,076
	<u>—</u>	<u>4,076</u>	<u>—</u>	<u>4,076</u>

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2013: Nil).

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 2014	Range 2013
Significant unobservable inputs		
Capitalisation rate	4.25%	4.25%
Discount rate	7.25%	7.25%
Growth rate p.a. (Approximately)	3.3% to 6.3%	3.0% to 6.0%
Occupancy rate	99%	98%
Room rate per day (Approximately)	HK\$1,300 to HK\$1,900	HK\$1,300 to HK\$1,900
Gross operating profit (as a % of revenue) (Approximately)	65% to 66%	66% to 67%

(b) Investment properties

	Range 2014	Range 2013
Significant unobservable inputs	Asset Class	
Capitalisation rate	Hotel and commercial	3.25% to 4.75%
Discount rate	Hotel and commercial	6.25% to 7.75%
Growth rate p.a. (Approximately)	Hotel	3.0% to 7.6%
Occupancy rate	Hotel	90% to 94%
Room rate per day (Approximately)	Hotel	HK\$800 to HK\$2,300
Gross operating profit (as a % of revenue) (Approximately)	Hotel	42% to 56%
Estimated rental p.a. (Approximately)	Commercial	HK\$5,700,000 to HK\$8,700,000

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 net rental income and gross operating profits less 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 room rate per day, occupancy rates and growth rates per annum in isolation would result in significant increases/(decreases) in the fair values of the hotel properties. A significant increase/(decrease) in the capitalisation rates and discount rates in isolation would result in significant (decreases)/increases in the fair values of the hotel properties. Generally, a change in the assumptions made for the room rates are accompanied by a directionally similar change in the growth rates per annum and the discount rates.

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 long-term bank borrowings with floating interest rates. Interest rate risk is managed by the REIT Manager on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

The Group has put in place interest rate swap arrangements to limit the variability in cash flows attributable to changes in interest rates. This involves fixing portions of interest payable on its underlying bank borrowings via derivative instruments. Details of interest rate swaps are set out in note 21 to the consolidated financial statements. These swaps are designated to hedge underlying bank borrowing obligations.

For Hong Kong dollar borrowings, assuming the amount of bank borrowings and interest rate swap contracts outstanding at the end of the reporting period was outstanding for the whole year, a 100 basis point increase in interest rates would have decreased the Group's profit before tax and distributions to Unitholders for the current year by HK\$33.0 million (2013: HK\$19.8 million). A 10 basis point decrease in interest rates would have increased the Group's profit before tax and distributions to Unitholders for the current year by HK\$3.3 million (2013: HK\$2.0 million).

For interest rate swap contracts, a 100 basis point increase in interest rates would have increased the Group's net assets attributable to Unitholders as at 31st December, 2014 by HK\$3.1 million (2013: HK\$31.5 million) as a result of fair value changes on derivative financial instruments. A 10 basis point decrease in interest rates would have decreased the Group's net assets attributable to Unitholders as at 31st December, 2014 by HK\$0.3 million (2013: HK\$4.6 million).

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

Credit risk

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

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

Liquidity risk

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

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

	2014			Total HK\$'000
	On demand HK\$'000	Less than 12 months HK\$'000	1 to 5 years HK\$'000	
Accounts payable	93,917	375	—	94,292
Deposits received	—	124	2,653	2,777
Other payables and accruals	—	37,216	—	37,216
Due to related companies	—	6,199	—	6,199
Interest-bearing bank borrowings	—	185,580	6,839,356	7,024,936
Other borrowings	—	79,674	2,123,552	2,203,226
Derivative financial instruments	—	2,024	—	2,024
	93,917	311,192	8,965,561	9,370,670

	2013			Total HK\$'000
	On demand HK\$'000	Less than 12 months HK\$'000	1 to 5 years HK\$'000	
Accounts payable	131,792	144	—	131,936
Deposits received	—	2,673	—	2,673
Other payables and accruals	—	38,403	—	38,403
Interest-bearing bank borrowings	—	253,907	5,395,223	5,649,130
Other borrowings	—	79,662	2,202,885	2,282,547
Derivative financial instruments	—	3,510	573	4,083
	131,792	378,299	7,598,681	8,108,772

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

Capital management

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

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

The Group monitors the capital management position using the loan-to-value ratio and the gearing ratio. At the end of the reporting period, the loan-to-value ratios in connection with certain utilised banking facilities ranged from 38.8% to 49.5% (2013: ranged from 37.2% to 38.4%), which was 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 33.9% (2013: 29.8%), being the gross amount of the outstanding bank loans and other borrowings aggregating HK\$8,233.6 million (2013: HK\$6,915.7 million), which takes into account: (a) the debts in relation to the March 2013 Notes and the May 2013 Notes issued under the MTN Programme for an aggregate nominal principal amount of HK\$1,938.6 million; (b) the 2013 IH Facilities of HK\$4,520.0 million; (c) the 2014 WC Facility of HK\$440.0 million; (d) the 2014 SW Facilities of HK\$675.0 million; and (e) the 2014 FH Facilities of HK\$660.0 million, as compared to the total gross assets of HK\$24,287.5 million (2013: HK\$23,203.0 million), which is below the maximum limit of 45% permitted under the REIT Code.

32. SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

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

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

INDEPENDENT AUDITORS' 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 have audited the consolidated financial statements of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries (collectively referred to as the "Group") set out on pages 62 to 113, which comprise the consolidated statement of financial position as at 31st December, 2014, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets, the consolidated statement of cash flows and the distribution statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGER'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Manager of Regal REIT is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the relevant provisions of the trust deed dated 11th December, 2006, as supplemented by the first supplemental trust deed dated 2nd March, 2007, the second supplemental trust deed dated 15th May, 2008, the third supplemental trust deed dated 8th May, 2009, the fourth supplemental trust deed dated 23rd July, 2010, the fifth supplemental trust deed dated 3rd May, 2011 and the sixth supplemental trust deed dated 21st July, 2011 (the "Trust Deed") and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission of Hong Kong, and for such internal control as the Manager of Regal REIT determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Unitholders of Regal Real Estate Investment Trust

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager of Regal REIT, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 31st December, 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code.

Ernst & Young

Certified Public Accountants

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

24th March, 2015

PERFORMANCE TABLE

As at 31st December, 2014

	Notes	Year ended 31st December, 2014	Year ended 31st December, 2013	Year ended 31st December, 2012	Year ended 31st December, 2011	Year ended 31st December, 2010
Net assets attributable to Unitholders (HK\$'million)		15,502.6	15,774.1	15,931.0	12,651.8	9,919.6
Net asset value per Unit attributable to Unitholders (HK\$)		4.759	4.843	4.891	3.884	3.060
The highest traded price during the year (HK\$)	1	2.32	2.75	2.30	2.66	2.24
The lowest traded price during the year (HK\$)		1.92	2.15	1.68	1.43	1.65
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		59.66%	55.61%	65.65%	63.18%	46.08%
Distribution yield per Unit	2	7.90%	6.73%	6.31%	6.70%	8.52%

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, 2014 is calculated by dividing the total distributions per Unit of HK\$0.162 over the closing price of HK\$2.05 as at 31st December, 2014, being the last trading day for the year. Details of the total distributions per Unit is set out in the section "Distribution Statement" on page 67.

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 and sixth supplemental deed dated 21 July 2011), for the period from 1 January 2014 to 31 December 2014.

DB Trustees (Hong Kong) Limited

(in its capacity as the trustee of Regal REIT)

Hong Kong, 11th March, 2015

VALUATION REPORT



Regal Portfolio Management Limited

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

DB Trustees (Hong Kong) Limited

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

27 February 2015

Dear Sir/Madam

RE: VALUATION OF REGAL AIRPORT HOTEL, REGAL HONGKONG HOTEL, REGAL KOWLOON HOTEL, REGAL ORIENTAL HOTEL, REGAL RIVERSIDE HOTEL, ICLUB WAN CHAI HOTEL, ICLUB SHEUNG WAN HOTEL AND ICLUB FORTRESS HILL HOTEL IN HONG KONG (COLLECTIVELY THE "PROPERTIES")

In accordance with your instructions for us to value the Properties of Regal REIT, we confirm that we have carried out 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 Properties as at 31 December 2014 (the "Date of Valuation") for annual reporting purposes.

Basis of Valuation

Our valuation is our opinion of the market value of each of the Properties concerned which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T : (852) 2801 6100
F : (852) 2530 0756

EA LICENCE: C-023750
savills.com

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

We are independent of the Manager and the Trustee and our valuation of the Properties is prepared in accordance with "The HKIS Valuation Standards (2012 Edition)" published by The Hong Kong Institute of Surveyors; and in compliance with the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and paragraph 6.8 of the Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in August 2014.

Valuation Approach

In the course of our valuation analysis, we have principally adopted the Income Capitalization - Discounted Cash Flow Analysis and counter-checked by the Direct Comparison Approach.

Income Capitalization – Discounted Cash Flow Analysis ("DCF")

As the Properties are held for long term investment, we have adopted a 10-year projection time frame in our DCF. Such 10-year investment horizon enables an investor to make an assessment of the long-term return that is likely to be derived from the Properties.

In preparing the DCF, the income and expenses for the next ten years from the Date of Valuation are itemized and projected annually taking into account the expected growth (or decline) of incomes and expenses. The net cash flow over the ten-year period is discounted at a discount rate. In undertaking this analysis, we have relied to the actual results of operations of the Properties supplied by the Manager in respect of room sales, rental income from commercial area, outgoings, operating costs, gross operating profits, rent and rates. Our forecast of growth of room rates and occupancy rates of the Properties are based on the projected cash flow and budgeting prepared by the Manager and our analysis of relevant general and economic conditions and of the business prospects of the Properties.

The Properties are hypothetically assumed to be sold at the end of the ten years period. The net cash flow of each property from the 11th year onward to the unexpired term of the Government lease is capitalized at a terminal yield expected for this type of property investment in the market. Due consideration has been given to the expectation of the renewal of the Government lease upon expiry. This terminal rate of return is made by reference to the yields achieved in analyzed market sale of hotel premises and our knowledge of the market expectation from our day-to-day contact with property investors. This expected return reflects implicitly the quality of the investment, the expectation of the potential of future rental growth and capital appreciation, risk factor and the like. The capitalized future value is discounted at the discount rate.

We considered DCF is the most appropriate valuation approach for assessing the market value of the Properties as it would better reflect specific characteristics of the income-producing properties such as lease expiry profile, existing tenant covenants and level of passing and reversionary rents, lease duration, potential income growth, renewed rates, vacancy rates and all outgoings.

DCF is subject to various assumptions including incomes and expenses of the Properties and future economic conditions in the markets. The income and expense figures are mathematically extended and are fully dependent upon the accuracy of the assumptions as to incomes, expenses and market conditions.

Direct Comparison Approach

As a supporting approach to our valuations, we have considered the Direct Comparison Approach as a reference check for the valuations arrived from DCF. In this regard, comparable sale transactions around the Date of Valuation are collected and analyzed in term of a price per square foot and a price per room. The rationale of this approach is to directly compare the market comparable transactions with a property to determine the market value. Appropriate adjustments are applied to the comparable transactions to adjust for the discrepancies between a property and the comparables.

Title Investigation

We have not been provided with extracts from title documents relating to the Properties but we have caused searches to be made at the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

Source of Information

We have relied to a very considerable extent on information given by the Manager and have accepted advice to us on such matters as planning approvals, statutory notices, easements, tenure, occupancy status, lettings, building plans, site and floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Manager, and have been advised by the Manager that no material facts have been omitted from the information provided.

Site Measurement

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 handed to us are correct. Dimensions, measurements and areas included in the valuation report are based on information contained in the documents provided to us by the Manager and are therefore only approximations.

Site Inspection

We have inspected the exterior of the Properties and where possible, we have also inspected the interior of the Properties. Our inspections of the Properties were carried out by Mr. Chris Lee, MHKIS, on 20 and 21 January 2015. During the course of our inspections, we did not note any serious defect. However, no structural survey has been made and we are therefore unable to report as whether the Properties are free of rot, infestation or any other structural defect. No tests were carried out to any of the services.

Valuation Assumptions

Unless otherwise stated, our valuations have been made on the assumption that the Properties can be sold in the prevailing market without the benefit of any deferred term contracts, leasebacks, joint ventures, or any similar arrangements which would affect their market values of the Properties.

No allowance has been made in our report for any charge, mortgage or amount owing on the Properties nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In addition, we have made the following assumptions in our valuations:-

- All information on the Properties provided by the Manager is correct.
- The Properties have been constructed, occupied and used in full compliance with, and without contravention of, all ordinances and regulations except only where otherwise stated.
- All tenancies and licences of the Properties as stated in the tenancy schedules provided to us are valid, binding and enforceable.
- Unless otherwise stated, we have not carried out any valuation on redevelopment basis, nor the study of possible alternative options.

Valuer's interest

We hereby certify that we have no present or prospective interest in the Properties and are not a related corporation of nor have a relationship with the Manager, the Trustee or any other party or parties with whom Regal REIT is contracting; and we are authorized to practice as valuer and have the necessary expertise and experience in valuing similar types of properties.

We hereby confirm that our valuations have been prepared on a fair and unbiased basis.

In accordance with our standard practice, we must state that this valuation report and our valuations are for the use only of the parties to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents.

We enclose herewith our valuation report and summary of values.

Yours faithfully

For and on behalf of

Savills Valuation and Professional Services Limited

Charles C K Chan

MSc FRICS FHKIS MCI Arb RPS(GP)

Managing Director

Note : Mr. Charles C K Chan is a Chartered Estate Surveyor and has about 30 years' experience in valuation of properties in Hong Kong.

SUMMARY OF VALUES

No.	Properties	Market Value in existing state as at 31 December 2014 HK\$
1.	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories, Hong Kong	3,480,000,000
2.	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	4,180,000,000
3.	Regal Kowloon Hotel 71 Mody Road Tsimshatsui Kowloon, Hong Kong	5,480,000,000
4.	Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and whole of 1/F Po Sing Court 21-25 Shek Ku Lung Road, 40-42 Sa Po Road, 15-29 Carpenter Road Kowloon City Kowloon, Hong Kong	2,160,000,000
5.	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin New Territories, Hong Kong	4,700,000,000

No. Properties	Market Value in existing state as at 31 December 2014 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	889,000,000
7. iclub Sheung Wan Hotel 138 Bonham Strand Sheung Wan Hong Kong	1,580,000,000
8. iclub Fortress Hill Hotel 18 Merlin Street North Point Hong Kong	1,650,000,000
Total :	24,119,000,000

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. DESCRIPTION OF PROPERTY

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

RAH is located right next to the Hong Kong International Airport ("HKIA") and is directly connected to the passenger terminal of the HKIA by an air-conditioned footbridge on the 2nd floor. The AsiaWorld-Expo is located at close proximity to RAH by a few minutes walk.

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/12 dated 21 October 2011.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	216	Spa Cabana Room	5
Superior Room	356	Spa Suite	2
Deluxe Room	167	Honeymoon Suite	1
Prime Deluxe Room	93	Royal Suite	11
Premier Room	100	Duplex Suite	2
Cabana Room	17	Deluxe Suite	15
Executive Club Floor Superior Room	68	Apartment Suite	9
Executive Club Floor Deluxe Room	94	Presidential Suite	1
Spa Deluxe Room	14		
		Total	1,171

Note: The room sizes range from 27 sq. m. to 280 sq. m.

Food and Beverage Outlets

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

Banquet and Convention Facilities

Floor	Name of Room	Type	No. of Room	Seating Capacity (approx.)		
				Area (sq. m.)	Boardroom Style	No. of seating Theatre/ Banquet Style
B/F	Pre-function Area and Meeting Room	Conference and Exhibition	13	1,645	468	512
1/F	Ballroom	Banquet/Convention	1	960	960	960
1/F	Multi-purpose Function Room	Meeting and Conference	7	490	403	312
2/F	Meeting Room	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 pools, a health club with gymnasium, massage and spa facilities, a children play room, a business centre and some retail spaces.

2. OWNERSHIP AND TENURE

Registered Owner : Airport Authority¹

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

Major Registered Encumbrance

- i. Sub-Lease of Hotel dated 12 August 2004 in favour of Bauhinia Hotels Limited, registered vide memorial no. IS342341. The term of Sub-Lease commencing from 31 December 2003 until the date occurring 25 years thereafter.
- ii. Supplemental Lease (to Sub-Lease of Hotel registered vide memorial no. IS342341) dated 8 November 2006 in favour of Bauhinia Hotels Limited, registered vide memorial no. 06112400700018.
- iii. Lease Agreement (No. 1 for Regal Airport Hotel) by Bauhinia Hotels Limited dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910065. The term of lease commencing from 30 March 2007 and expiring on 31 December 2015.
- iv. First Supplemental Agreement amending Lease Agreement No. 1 for Regal Airport Hotel by Bauhinia Hotels Limited dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510099.
- v. G.N. 2761 dated 26 April 2012 under Roads (Works, Use and Compensation) Ordinance (Chapter 370) (re: PWP Item No. 844th Hong Kong-Zhuhai-Macao Bridge Hong Kong Link Road), registered vide memorial no. 12051002590037.
- vi. G.N. 2762 dated 26 April 2012 under Roads (Works, Use and Compensation) Ordinance (Chapter 370) (re: PWP Item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities), registered vide memorial no. 12051002590012.
- vii. G.N. 2763 dated 26 April 2012 under Roads (Works, Use and Compensation) Ordinance (Chapter 370) 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), registered vide memorial no. 12051002590049.
- viii. G.N. 2764 dated 26 April 2012 under Roads (Works, Use and Compensation) Ordinance (Chapter 370) 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), registered vide memorial no. 12051002590024.

¹ The hotel is sub-lease to Bauhinia Hotels Limited for a term commencing from 31 December 2003 until the date occurring 25 years thereafter.

- ix. Mortgage and Assignment of Rights dated 29 August 2013 in favour of Hang Seng Bank Limited, registered vide memorial no. 13092602360232.
- x. G.N. 6022 dated 10 October 2013 under Roads (Works, Use and Compensation) Ordinance (Chapter 370) (re: portion) (re: PWP Item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities Creation of Rights of Temporary Occupation of Lane), registered vide memorial no. 13102500820010.
- xi. Consent Letter dated 19 November 2013 from District Lands Officer, Islands, registered vide memorial no. 13120201030063.

3. HOTEL OPERATION

Hotel Performance in 2014

Occupancy Rate : 92%

Average Room Rate : HK\$1,219

Lease Agreement

Lessor : Bauhinia Hotels Limited

Lessee : Favour Link International Limited

Term of Lease Agreement : Commencing from 30 March 2007 and expiring on 31 December 2015

Rental : From 2011 to 2015, 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 the Initial Hotels.

According to the 2014 and 2015 Market Rental Package Determinations, Base Rents for RAH for the fiscal years of 2014 and 2015 are HK\$222,000,000 and HK\$230,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the Five Initial Hotels³ 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 Five Initial Hotels include 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	: 20 years from 30 March 2007
Base Fee	: 1% of Gross Revenue ⁴ (for so long as the Lease Agreement is in subsistence); or 2% of Gross Revenue (for other cases during the Operating Term)
Incentive Fee	: 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 5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term)

4. TENANCY/LICENCE DETAILS

Retail⁶

Total Retail Area (Lettable)	: Approx. 40,100 sq. ft. (3,725 sq. m.)
Leased Area (Lettable)	: Approx. 9,400 sq. ft. (873 sq. m.)
Vacant Area (Lettable)	: Approx. 30,700 sq. ft. (2,852 sq. m.)
Occupancy Rate	: 23%
Monthly Base Rent	: HK\$340,672 (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)
Latest Expiry Date	: 31 October 2016
Rent Free Period	: 0 to 4 months
Option to Renew	: No tenancy has an option to renew.
Summary of Terms	: The landlord ⁷ is responsible for payment of Government rent and the structural and external repairs whilst the tenant is responsible for the internal repairs of the property.

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

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

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

⁷ All tenancy agreement/licence are entered into by Favour Link International Ltd as Landlord.

Tenancy Expiry Profile

Year	Lettable		Monthly		No. of Tenancy	% of Total (rounded)
	Area (sq. ft.)	% of Total (rounded)	Base Rent (HK\$)	% of Total (rounded)		
Monthly	1,348	14.3%	55,490	16.3%	2	25.0%
End of 2014	4,662	49.6%	122,378	35.9%	1	12.5%
End of 2016	3,390	36.1%	162,804	47.8%	5	62.5%
Total	9,400	100%	340,672	100%	8	100%

Tenancy Duration

Year	Lettable		Monthly		No. of Tenancy	% of Total (rounded)
	Area (sq. ft.)	% of Total (rounded)	Base Rent (HK\$)	% of Total (rounded)		
Monthly	1,348	14.3%	55,490	16.3%	2	25.0%
More than 1 year and up to 2 years	8,052	85.7%	285,182	83.7%	6	75.0%
Total	9,400	100%	340,672	100%	8	100%

Licences for Mobile Phone Base Stations, Antennae, Signage Space and Others

Number of Licence	:	6
Monthly Licence Fee	:	HK\$245,726
Latest Expiry Date	:	14 February 2016

5. ESTIMATED NET PROPERTY YIELD⁸

7.7%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2014

HK\$3,480,000,000 (HONG KONG DOLLARS THREE BILLION FOUR HUNDRED AND EIGHTY MILLION)

⁸ The Estimated Net Property Yield of RAH is derived from the rental receivable in 2014 divided by the Market Value.

PROPERTY 2

REGAL HONGKONG HOTEL

88 Yee Woo 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. DESCRIPTION OF PROPERTY

Regal Hongkong Hotel ("RHK") is a 38-storey (including 4 basement floors) High Tariff A hotel completed in 1993. After several Asset Enhancement Programmes in recent years, RHK comprises 481 guestrooms and suites.

Some spaces on the Ground Floor to 3rd Floor of 68 Yee Woo Street are rented as ancillary hotel space for the hotel.⁹

RHK is located at Causeway Bay, a prime shopping and tourist area where 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/H6/15 dated 17 September 2010.

Hotel Guestroom Configuration

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

Note: The room sizes range from 25 sq. m. to 153 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 one is related to Shop Nos. 301 to 304 on Third Floor with a lettable area of 3,437 sq. ft. (319 sq. m.). The term is 3 years commencing from 16 January 2012 with a monthly rent of HK\$114,310.

¹⁰ The area excludes the rented space.

¹¹ The area excludes the rented space.

Food and Beverage Outlets

Floor	Name of Outlet	Type	Seating Capacity (approx.)	
			Area (sq. m.)	No. of normal dining seating
G/F	Tiffany Lounge	Snack and Drinks	137	60
1/F	Café Rivoli	International Cuisine & Buffet	376	200
3/F	Regal Palace	Traditional Chinese Cuisine	752	500
31/F	Alto 88	Italian Cuisine	214	120

Banquet and Convention Facilities

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

Other Facilities

Other facilities include a business centre, a gymnasium and a rooftop swimming pool.

2. OWNERSHIP AND TENURE

Registered Owner : Cityability Limited

Lease Term : Inland Lot No. 1408 is held under a Government Lease for a term of 999 years commencing from 25 December 1884.

Major Registered Encumbrance

- i. Deed of Restrictive Covenant dated 13 May 1992, registered vide memorial no. UB 5287070.
- ii. Deed of Covenant and Grant of Right of Way and Easements and Management Agreement dated 13 May 1992, registered vide memorial no. UB5287071.
- iii. Statutory Declaration as to loss of title deeds dated 21 March 2000, registered vide memorial no. UB8033163.
- iv. Lease Agreement (No. 2 for Regal Hongkong Hotel) dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910073.
- v. First Supplemental Agreement amending Lease Agreement No. 2 for Regal Hongkong Hotel dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510109.
- vi. Cityability Debenture dated 29 August 2013 in favour of Hang Seng Bank Limited registered vide memorial no. 13092602360252.

3. HOTEL OPERATION

Hotel Performance in 2014

Occupancy Rate : 91%

Average Room Rate : HK\$1,424

Lease Agreement

Lessor : Cityability Limited

Lessee : Favour Link International Limited

Term of Lease Agreement : Commencing from 30 March 2007 and expiring on 31 December 2015

Rental : From 2011 to 2015, 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 the Initial Hotels

According to the 2014 and 2015 Market Rental Package Determinations, Base Rents for RHK for the fiscal years of 2014 and 2015 are HK\$144,000,000 and HK\$145,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the Five Initial Hotels¹³ 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 : 20 years from 30 March 2007

Base Fee : 1% of Gross Revenue¹⁴ (for so long as the Lease Agreement is in subsistence); or
2% of Gross Revenue (for other cases during the Operating Term)

Incentive Fee : 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
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 DETAILS

Licences for Mobile Radio Equipments and Integrated Radio Systems

Number of Licence : 5

Monthly Licence Fee : HK\$149,400

Latest Expiry Date : 15 August 2016

5. ESTIMATED NET PROPERTY YIELD¹⁶

3.4%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2014

HK\$4,180,000,000 (HONG KONG DOLLARS FOUR BILLION ONE HUNDRED AND EIGHTY MILLION)

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 Five Initial Hotels include Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

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

¹⁵ According to the HMA, “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 rental receivable in 2014 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. DESCRIPTION OF PROPERTY

Regal Kowloon Hotel ("RKH") is a 20-storey (including 4 basement floors) High Tariff A hotel with 600 guestrooms completed in 1982. The majority of guestrooms command 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 where developments in immediate locality consist of hotels, commercial and office buildings.

Site Area : 2,560 sq. m.

Gross Floor Area : 31,746 sq. m.

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

Town Planning Zoning : "Commercial" zone under Tsim Sha Tsui Outline Zoning Plan No. S/K1/28 dated 13 December 2013.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	41	Executive Club Floor Deluxe Room	147
Superior Room	39	Executive Club Floor Premier Room	29
Deluxe Room	27	Executive Suite	12
Prime Deluxe Room	36	Royal Suite	20
Premier Room	144	Deluxe Suite	6
Executive Club Floor Superior Room	98	Presidential Suite	1
		Total	600

Note: The room sizes range from 21 sq. m. to 162 sq. m.

Food and Beverage Outlets

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

Banquet and Convention Facilities

Floor	Name of Room	Type	No. of Room	Seating Capacity (approx.)		
				Area (sq. m.)	No. of seating Theatre/Boardroom Style	Banquet Style
2/F	Multi-purpose Function Room	Banquet/Convention	6	331	260	156
3/F	Ballroom	Banquet/Convention	1	353	353	360
3/F	Multi-purpose Function Room	Banquet/Convention	6	665	390	324

Other Facilities

Other facilities include a business centre, a gymnasium and a shopping arcade.

2. OWNERSHIP AND TENURE

Registered Owner : Ricobem Limited

Lease Term : Kowloon Inland Lot No. 10474 is held by the Government under Conditions of Sale No. 10983 for a term of 75 years commencing from 28 December 1976 and renewable for a further term of 75 years.

Major Registered Encumbrance

- i. 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.
- ii. Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide memorial no. UB8033162.
- iii. Lease Agreement (No. 3 for Regal Kowloon Hotel) dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910082.
- iv. First Supplemental Agreement amending Lease Agreement No. 3 for Regal Kowloon Hotel dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510128.

¹⁷ Additional outside seating area is provided on the Ground Floor.

3. HOTEL OPERATION

Hotel Performance in 2014

Occupancy Rate : 94%

Average Room Rate : HK\$1,252

Lease Agreement

Lessor : Ricobem Limited

Lessee : Favour Link International Limited

Term of Lease Agreement : Commencing from 30 March 2007 and expiring on 31 December 2015

Rental : From 2011 to 2015, 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 the Initial Hotels.

According to the 2014 and 2015 Market Rental Package Determinations, Base Rents for RKH for the fiscal years of 2014 and 2015 are HK\$151,000,000 and HK\$157,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the Five Initial Hotels¹⁹ 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 : 20 years from 30 March 2007

Base Fee : 1% of Gross Revenue²⁰ (for so long as the Lease Agreement is in subsistence); or
2% of Gross Revenue (for other cases during the Operating Term)

Incentive Fee : 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
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 Five Initial Hotels include Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

²⁰ According to the HMA, "Gross Revenue" means all revenue derived from the Hotel.

²¹ According to the HMA, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

4. TENANCY/LICENCE DETAILS

Retail²²

Total Retail Area (Lettable)	:	Approx. 43,000 sq. ft. (3,995 sq. m.)
Leased Area (Lettable)	:	Approx. 42,435 sq. ft. (3,942 sq. m.)
Vacant Area (Lettable)	:	Approx. 565 sq. ft. (53 sq. m.)
Occupancy Rate	:	99%
Monthly Base Rent	:	HK\$2,538,465 (all tenancies except eight are exclusive of rates, management fees and air-conditioning charges; seven of the remaining tenancies are inclusive of management fees and air-conditioning charges, but exclusive of rates; and one of the remaining tenancies is inclusive of management fees, air-conditioning charges and rates)
Latest Expiry Date	:	15 October 2017
Rent Free Period	:	0 to 2 months
Option to Renew	:	Three of the tenancies have an option to renew for a further term of 3 years at market rent and five of the tenancies have an option to renew for a further term of 2 years at market rent.
Summary of Terms	:	The landlord ²³ is responsible for payment of Government rent and the structural and external repairs whilst the tenant is responsible for the internal repairs of the property.

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

²³ All tenancy agreement/licence are entered into by Favour Link International Ltd as Landlord.

Tenancy Expiry Profile

Year	Lettable Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK\$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
Monthly	1,190	2.8%	20,000	0.8%	2	6.9%
End of 2014	172	0.4%	7,380	0.3%	1	3.5%
End of 2015	14,882	35.1%	493,274	19.4%	5	17.2%
End of 2016	12,389	29.2%	1,079,594	42.5%	14	48.3%
End of 2017	13,802	32.5%	938,217	37.0%	7	24.1%
Total	42,435	100%	2,538,465	100%	29	100%

Tenancy Duration

Year	Lettable Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK\$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
Monthly	1,190	2.8%	20,000	0.8%	2	6.9%
More than 1 year and up to 2 years	6,747	15.9%	380,904	15.0%	12	41.4%
More than 2 years and up to 3 years	16,064	37.9%	1,507,217	59.4%	10	34.5%
More than 3 years and up to 4 years	10,847	25.5%	393,344	15.5%	3	10.3%
More than 4 years and up to 5 years	7,587	17.9%	237,000	9.3%	2	6.9%
Total	42,435	100%	2,538,465	100%	29	100%

Licences for Corridor, Showcase, Storeroom, Mobile Phone Stations and Antennae

Number of Licence	:	8
Monthly Licence Fee	:	HK\$146,903
Latest Expiry Date	:	31 January 2017

5. ESTIMATED NET PROPERTY YIELD²⁴

3.2%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2014

HK\$5,480,000,000 (HONG KONG DOLLARS FIVE BILLION FOUR HUNDRED AND EIGHTY MILLION)

²⁴ The Estimated Net Property Yield of RKH is derived from the rental receivable in 2014 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 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**

New Kowloon Inland Lot No. 5754 and
41/180th undivided shares of and in New Kowloon Inland Lot No. 4917

1. DESCRIPTION OF PROPERTY

Regal Oriental Hotel ("ROH") comprises a block of 17-storey (including 2 basement floors) High Tariff B hotel situated at 30-38 Sa Po Road ("ROH - 30-38 Sa Po Road") which was 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 9 shop units on the Ground Floor (with 3 units including cocklofts) and the 1st floor in an adjacent 14-storey building, namely Po Sing Court, completed in 1967 ("ROH - Po Sing Court").

ROH is located at 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 – 1,797 sq. m. New Kowloon Inland Lot No. 4917 – 741 sq. m.
Gross Floor Area	:	22,601 sq. m.
Covered Floor Area	:	Approx. 27,300 sq. m.
Town Planning Zoning	:	ROH - 30-38 Sa Po Road falls within "Commercial" zone and ROH – Po Sing Court falls within "Residential (Group A) 2" zone under Ma Tau Kok Outline Zoning Plan No. S/K10/20 dated 4 November 2008.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	55	Executive Club Floor Superior Room	55
Superior Room	114	Executive Club Floor Deluxe Room	45
Deluxe Room	22	Executive Suite	11
Prime Deluxe Room	71	Royal Suite	1
Premier Room	23	Deluxe Suite	12
Family Triple Room	52	Presidential Suite	1
Family Quadruple Room	32		
		Total	494

Note: The room sizes range from 13 sq. m. to 106 sq. m.

Food and Beverage Outlets

Floor	Name of Outlet	Type	Seating Capacity (approx.)	
			Area (sq. m.)	No. of normal dining seating
1/B	Café Neo	International Cuisine & Buffet	536	300
G/F	The China Coast Pub + Restaurant ²⁵	Pub & Restaurant	248	72
2/F	Regal Terrace	Cantonese Cuisine	427	300

Banquet and Convention Facilities

Floor	Name of Room	Type	No. of Room	Seating Capacity (approx.)		
				Area (sq. m.)	No. of seating Boardroom Style	No. of seating Theatre/ Banquet Style
1/F	Ballroom	Banquet/Convention	1	345	250	300
1/F	Multi-purpose Function Room	Banquet/Convention	7	302	254	216
3/F	Meeting room in Club Lounge	Meeting and conference	1	15	8	N/A

Other Facilities

Other facilities include a business centre, a fitness centre and some retail areas.

²⁵ Additional outside seating areas are provided on Ground Floor next to China Coast Pub + Restaurant.

2. OWNERSHIP AND TENURE

Registered Owner : Gala Hotels Limited

Lease Term : New Kowloon Inland Lot No. 5754 is held by the Government under Conditions of Sale No. 11240 for a term of 99 years less the last 3 days commencing from 1 July 1898 and had 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 3 days commencing from 1 July 1898 and had been statutorily extended to 30 June 2047.

Major Registered Encumbrance

ROH - 30-38 Sa Po Road

- i. Deed of Grant of Easement dated 23 June 1981, registered vide memorial no. UB2111189.
- ii. Modification Letter dated 26 August 1981, registered vide memorial no. UB2144106.
- iii. Letter of Compliance from District Lands Office Kowloon West to Paliburg Project Management Ltd dated 27 July 1982, registered vide memorial no. UB3990406.
- iv. Statutory Declaration as to loss of title deeds dated 21 March 2000, registered vide memorial no. UB8033164.
- v. Lease Agreement (No. 4 for Regal Oriental Hotel) dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910095.
- vi. First Supplemental Agreement amending Lease Agreement No. 4 for Regal Oriental Hotel dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510111.

ROH - Po Sing Court

- i. Management Agreement dated 28 November 1967 in favour of The Hong Kong Building and Loan Agency Limited (Agency) and National Investment Company Limited (Manager), registered vide memorial no. UB604982.
- ii. Deed of Mutual Covenant dated 12 December 1967, registered vide memorial no. UB607737.
- iii. Lease Agreement (No. 4 for Regal Oriental Hotel) dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910095.
- iv. First Supplemental Agreement amending Lease Agreement No. 4 for Regal Oriental Hotel dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510111.

3. HOTEL OPERATION

Hotel Performance in 2014

Occupancy Rate	:	92%
Average Room Rate	:	HK\$838

Lease Agreement

Lessor	:	Gala Hotels Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from 30 March 2007 and expiring on 31 December 2015
Rental	:	From 2011 to 2015, 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 the Initial Hotels.

According to the 2014 and 2015 Market Rental Package Determinations, Base Rents for ROH for the fiscal years of 2014 and 2015 are HK\$78,000,000 and HK\$81,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the Five Initial Hotels²⁷ 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	:	20 years from 30 March 2007
Base Fee	:	1% of Gross Revenue ²⁸ (for so long as the Lease Agreement is in subsistence); or 2% of Gross Revenue (for other cases during the Operating Term)
Incentive Fee	:	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 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 Five Initial Hotels include Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

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

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

4. TENANCY/LICENCE DETAILS

Retail³⁰

Total Retail Area (Lettable)	:	ROH - 30-38 Sa Po Road – approx. 12,263 sq. ft. (1,139 sq. m.) ROH - Po Sing Court – approx. 4,052 sq. ft. (376 sq. m.)
Leased Area (Lettable)	:	ROH - 30-38 Sa Po Road – Nil ROH - Po Sing Court – Nil
Vacant Area (Lettable)	:	ROH - 30-38 Sa Po Road – approx. 12,263 sq. ft. (1,139 sq. m.) ROH - Po Sing Court – approx. 4,052 sq. ft. (376 sq. m.)
Occupancy Rate	:	0%
Monthly Base Rent	:	HK\$0
Latest Expiry Date	:	N/A
Rent Free Period	:	N/A
Option to Renew	:	N/A
Summary of Terms	:	N/A

Licences for Mobile Phone Stations and Antennae

Number of Licence	:	4
Monthly Licence Fee	:	HK\$79,004
Latest Expiry Date	:	30 June 2016

5. ESTIMATED NET PROPERTY YIELD³¹

3.6%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2014

HK\$2,160,000,000 (HONG KONG DOLLARS TWO BILLION ONE HUNDRED AND SIXTY MILLION)

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

³¹ The Estimated Net Property Yield of ROH is derived from the base rental receivable in 2014 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. DESCRIPTION OF PROPERTY

Regal Riverside Hotel ("RRH") is a 20-storey (including 2 basement floors) High Tariff B hotel completed in 1986. The two Asset Enhancement Programmes completed in 2007 and 2009 respectively increased the number of guestrooms from 830 to 1,138.

RRH is located at Shatin, a well established new town in the New Territories. RRH is located right next to Shing Mun River, developments in the immediate locality mainly comprise recreational facilities and residential buildings.

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/30 dated 5 September 2014.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	126	Executive Club Floor Deluxe Room	54
Superior Room	307	Executive Club Floor River View Room	45
Deluxe Room	53	Spa Superior Room	4
Prime Deluxe Room	158	Spa Deluxe Room	3
Premier Room	154	Executive Suite	11
Family Triple Room	33	Royal Suite	1
Family Quadruple Room	62	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 145 sq. m.

Food and Beverage Outlets

Floor	Name of Outlet	Type	Seating Capacity (approx.)	
			Area (sq. m.)	No. of normal dining seating
G/F	Vi ³²	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 ³³	Italian Cuisine	154	98
G/F	Scene Bar	Live Music Lounge	210	88
1/F	Carnival Bar	American Bar	286	120
1/F	Dragon Inn	Huai Yang Cuisine	318	156
2/F	Regal Terrace	Cantonese and selected Provincial Cuisines	726	460
2/F	Regal Court	Chinese Fine Dining Cuisine	205	80
3/F	L'Eau Restaurant	International Poolside BBQ Buffet and Singaporean and Malaysian a la carte menu	409	220

Banquet and Convention Facilities

Floor	Name of Room	Type	No. of Room	Seating Capacity (approx.)		
				Area (sq. m.)	No. of seating Theatre/ Boardroom Style	Banquet Style
1/F	Ballroom	Banquet/Convention	1	474	450	456
1/F	Multi-purpose Function Room	Banquet/Convention	2	108	70	72
1/F	Forum	Meeting and convention	1	518	500	432
2/F	Multi-purpose Function Room	Banquet/Convention	4	319	140	192
3/F	Multi-purpose Function Room	Banquet/Convention	4	313	170	168
15/F	Meeting room in Club Lounge	Meeting and conference	1	14	8	N/A

Other Facilities

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

³² Additional outside seating area is provided on the Ground Floor.

³³ Additional outside seating area is provided on the Ground Floor.

2. OWNERSHIP AND TENURE

Registered Owner : Regal Riverside Hotel Limited

Lease Term : Sha Tin Town Lot No. 160 is held by Government under New Grant No. 11571 for a term of 99 years less the last 3 days commencing from 1 July 1898 and had been statutorily extended to 30 June 2047.

Major Registered Encumbrance

- i. Modification Letter dated 4 June 1982, registered vide memorial no. ST211142.
- ii. Modification Letter dated 28 August 1986, registered vide memorial no. ST353344.
- iii. Letter of Compliance dated 18 July 1986, registered vide memorial no. ST430228.
- iv. Statutory Declaration as to loss of title deeds dated 21 March 2000, registered vide memorial no. ST1145794.
- v. Lease Agreement (No. 5 for Regal Riverside Hotel) dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910108
- vi. Modification Letter from the Government of the Hong Kong Special Administrative Region by the District Lands Officer/Shah Tin dated 14 November 2007, registered vide memorial no. 07111601000553.
- vii. First Supplemental Agreement amending Lease Agreement No. 5 for Regal Riverside Hotel dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510131.
- viii. Regal Riverside Debenture dated 29 August 2013 in favour of Hang Seng Bank Limited registered vide memorial no. 13092602360240.

3. HOTEL OPERATION

Hotel Performance in 2014

Occupancy Rate : 93%

Average Room Rate : HK\$779

Lease Agreement

Lessor : Regal Riverside Hotel Limited

Lessee : Favour Link International Limited

Term of Lease Agreement : Commencing from 30 March 2007 and expiring on 31 December 2015

Rental : From 2011 to 2015, the Market Rent³⁴ to be determined (the "Market Rental Package Determination") in accordance with the Lease Agreement, subject to a Floor Rent of HK\$70,000,000 per annum out of a total Floor Rent of HK\$400,000,000 for all the Initial Hotels.

According to the 2014 and 2015 Market Rental Package Determinations, Base Rents for RRH for the fiscal years of 2014 and 2015 are HK\$148,000,000 and HK\$150,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the Five Initial Hotels³⁵ 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 : 20 years from 30 March 2007

Base Fee : 1% of Gross Revenue³⁶ (for so long as the Lease Agreement is in subsistence); or
2% of Gross Revenue (for other cases during the Operating Term)

Incentive Fee : 1% of the excess of the Adjusted GOP³⁷ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or

5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term)

³⁴ 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.

³⁵ Five Initial Hotels include Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

³⁶ According to the HMA, "Gross Revenue" means all revenue derived from the Hotel.

³⁷ According to the HMA, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

4. TENANCY/LICENCE DETAILS

Retail³⁸

Total Retail Area (Lettable)	:	Approx. 2,697 sq. ft. (251 sq. m.)
Leased Area (Lettable)	:	Approx. 1,973 sq. ft. (184 sq. m.)
Vacant Area (Lettable)	:	724 sq. ft. (67 sq. m.)
Occupancy Rate	:	73%
Monthly Base Rent	:	HK\$75,000 (exclusive of rates, management fees and air conditioning charges)
Latest Expiry Date	:	14 November 2015
Rent Free Period	:	2 months
Option to Renew	:	N/A
Summary of Terms	:	The landlord ³⁹ is responsible for payment of Government rent and the structural and external repairs whilst the tenant is responsible for the internal repairs of the property.

Tenancy Expiry Profile

Year	Lettable Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK\$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
End of 2015	1,973	100%	75,000	100%	1	100%
Total	1,973	100%	75,000	100%	1	100%

Tenancy Duration

Year	Lettable Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK\$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
More than 2 years and up to 3 years	1,973	100%	75,000	100%	1	100%
Total	1,973	100%	75,000	100%	1	100%

³⁸ The areas quoted exclude spaces which are used by RRH.

³⁹ All tenancy agreement/licence are entered into by Favour Link International Ltd as Landlord.

Licences for Mobile Phone Stations

Number of Licence	:	5
Monthly Licence Fee	:	HK\$196,350
Latest Expiry Date	:	31 March 2017

5. ESTIMATED NET PROPERTY YIELD⁴⁰

3.6%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2014

HK\$4,700,000,000 (HONG KONG DOLLARS FOUR BILLION AND SEVEN HUNDRED MILLION)

⁴⁰ The Estimated Net Property Yield of RRH is derived from the rental receivable in 2014 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 Sub-Section 1 and The Remaining Portion of Section F,
and Sub-Section 1 and The Remaining Portion of Section G, of Inland Lot No. 2769

1. DESCRIPTION OF PROPERTY

iclub Wan Chai Hotel ("ICWC") comprises Shops A, B and C on the Ground Floor, a flat roof on the 3rd Floor, 22 entire floors (from 5th to 29th Floors, of which 13th, 14th and 24th Floors are omitted), the eastern and western elevations of external walls, the architectural feature at roof top and the upper roof of a 26-storey composite building completed in 1997. The remaining portion of the building, comprises a portion of the Ground Floor, whole of the 1st Floor and 2nd Floor, are owned by The Financial Secretary Incorporated (the property agent of the Government of HKSAR) and does not form part of ICWC.

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.

ICWC is located at Wan Chai, a well-established commercial area in Hong Kong. The immediately locality is predominantly office and commercial buildings.

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

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iSelect	31	iSuite	4
iPlus	29	iResidence	7
iBusiness	28		
		Total	99

Note: The room sizes range from 16 sq. m. to 51 sq. m.

Other Facilities

Other facilities include a club lounge and a gymnasium.

2. OWNERSHIP AND TENURE

Registered Owner : Sonnix Limited

Lease Term : 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 Encumbrance

- i. Licence dated 22 November 1994, registered vide memorial no. UB6186840.
- ii. Statutory Declaration of Liu Yee Man John dated 17 April 1997, registered vide memorial no. UB7020522.
- iii. Occupation Permit No. H73/97 dated 20 November 1997, registered vide memorial no. UB7355437.
- iv. Deed of Mutual Covenant and Management Agreement dated 28 November 1997 in favour of Paliburg Estate Management Limited, registered vide memorial no. UB7376631.
- v. Supplemental Deed of Mutual Covenant and Management Agreement dated 19 October 2009 in favour of Paliburg Estate Management Limited, registered vide memorial no. 09103001380118.
- vi. Debenture and Mortgage dated 24 December 2014 in favour of Hang Seng Bank Limited, registered vide memorial no. 15011902330104.

3. HOTEL OPERATION

Hotel Performance in 2014

Occupancy Rate	:	100%
Average Room Rate	:	HK\$1,176

Hotel Management Agreement (“HMA”)

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	From the Effective Date ⁴¹ , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of 31 December 2020.
Base Fee	:	2% of the Gross Revenue ⁴²
Incentive Fee	:	5% of the excess of the Gross Operating Profit ⁴³ over the Base Fee and the Fixed Charges.

4. TENANCY DETAILS

Retail⁴⁴

Total Retail Area (Gross Area)	:	Approx. 1,800 sq. ft. (167 sq. m.)
Leased Area (Gross Area)	:	Approx. 1,800 sq. ft. (167 sq. m.)
Vacant Area (Gross Area)	:	0 sq. ft. (0 sq. m.)
Occupancy Rate	:	100%
Monthly Base Rent	:	HK\$172,500 (the tenancy is inclusive of management fees and air-conditioning charges but exclusive of rates)
Latest Expiry Date	:	9 April 2017
Rent Free Period	:	1 month
Option to Renew	:	N/A
Summary of Terms	:	The landlord ⁴⁵ and/or other responsible party is/are to be responsible for the structural and external repairs whilst the tenant is to be responsible for the internal repairs of the property.

⁴¹ According to the HMA, “Effective Date” means 1 January 2011.

⁴² According to the HMA, “Gross Revenue” means all revenue derived from the Hotel.

⁴³ According to the HMA, “Gross Operating Profit” means Total Hotel Revenue less Hotel Operating Expenses during the same period.

⁴⁴ The areas quoted exclude spaces which are used by ICWC.

⁴⁵ All tenancy agreements are entered into by Sonnix Limited as Landlord.

Tenancy Expiry Profile

Year	Gross Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK\$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
End of 2017	1,800	100%	172,500	100%	1	100%
Total	1,800	100%	172,500	100%	1	100%

Tenancy Duration

Year	Gross Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK\$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
More than 2 years and up to 3 years	1,800	100%	172,500	100%	1	100%
Total	1,800	100%	172,500	100%	1	100%

Office

**Total Office Area
(Gross Area)** : Approx. 8,304 sq. ft. (771 sq. m.)

**Leased Area
(Gross Area)** : Approx. 8,304 sq. ft. (771 sq. m.)

**Vacant Area
(Gross Area)** : 0 sq. ft. (0 sq. m.)

Occupancy Rate : 100%

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

Latest Expiry Date : 31 March 2017

Rent Free Period : 1 month

Option to Renew : All tenancies have an option to renew for a further term of 2 years at market rent.

Summary of Terms : The landlord⁴⁶ and/or other responsible party is/are to be responsible for the structural and external repairs whilst the tenant is to be responsible for the internal repairs of the property.

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

Tenancy Expiry Profile

Year	Gross Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK\$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
End of 2017	8,304	100%	388,627	100%	3	100%
Total	8,304	100%	388,627	100%	3	100%

Tenancy Duration

Year	Gross Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK\$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
More than 3 years and up to 4 years	8,304	100%	388,627	100%	3	100%
Total	8,304	100%	388,627	100%	3	100%

5. ESTIMATED NET PROPERTY YIELD⁴⁷

3.4%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2014

HK\$889,000,000 (HONG KONG DOLLARS EIGHT HUNDRED AND EIGHTY NINE MILLION)

⁴⁷ The Estimated Net Property Yield of ICWC is derived from the net income receivable in 2014 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. DESCRIPTION OF PROPERTY

iclub Sheung Wan Hotel ("ICSW") is a 34-storey hotel comprising 248 guestrooms and suites completed in 2014.

ICSW is located at Sheung Wan, a well-established commercial cum residential area. The locality is close to Central, a prime and traditional Central Business District in Hong Kong. The immediate locality is predominantly office and residential buildings.

Site Area⁴⁸	:	472 sq. m.
Gross Floor Area	:	7,197 sq. m.
Covered Floor Area	:	Approx. 9,600 sq. m.
Town Planning Zoning	:	"Commercial" zone under Sai Ying Pun & Sheung Wan Outline Zoning Plan No. S/H3/29 dated 10 September 2013.

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

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iSelect	72	iPlus Premier	28
iPlus	60	iSuite	18
iBusiness	42	iResidence	7
iSelect Premier	21		
		Total	248

Note: The room sizes range from 14 sq. m. to 52 sq. m.

Other Facilities

Other facilities include a club lounge, a gymnasium and a business centre.

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 Encumbrance

- i. Government Notice No. 2710 of 21.7.1995 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)
- ii. Government Notice No. 1100 of 18.2.2011 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)
- iii. 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)
- iv. Government Notice No. 7420 of 11.11.2011 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)

- v. 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)
- vi. 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)

3. HOTEL OPERATION

Hotel Performance in 2014

Occupancy Rate	:	90%
Average Room Rate	:	HK\$882

Lease Agreement

Lessor	:	Tristan Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from the Effective Date ⁴⁹ and expiring on 31 December 2019
Rental	:	The annual rent payable in respect of the first, second and third years of the lease term are 5.00%, 5.25% and 5.50% respectively of HK\$1,580 million.

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

⁴⁹ 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 ⁵⁰ , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of the tenth anniversary of the Effective Date
Base Fee	:	1% of Gross Revenue ⁵¹ (for so long as the Lease Agreement is in subsistence); or 2% of Gross Revenue (for other cases during the Operating Term)
Incentive Fee	:	1% of the excess of the Adjusted GOP ⁵² over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or 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 DETAILS

Licences for Mobile Radio Equipment, Integrated Radio Systems and Others

Number of Licence	:	1
Monthly Licence Fee	:	HK\$60,000
Latest Expiry Date	:	25 June 2017

5. ESTIMATED NET PROPERTY YIELD⁵³

5.0%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2014

HK\$1,580,000,000 (HONG KONG DOLLARS ONE BILLION FIVE HUNDRED AND EIGHTY MILLION)

⁵⁰ According to the HMA, “Effective Date” means 10 February 2014.

⁵¹ According to the HMA, “Gross Revenue” means all revenue derived from the Hotel.

⁵² According to the HMA, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

⁵³ The Estimated Net Property Yield of ICSW is derived from the annualized fixed rental receivable in 2014 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. DESCRIPTION OF PROPERTY

iClub Fortress Hill Hotel ("ICFH") is a 32-storey hotel comprising 338 guestrooms completed in 2014.

ICFH is located at North Point, a well-established residential area. The immediate locality is predominantly residential buildings intermingled with office buildings and hotel developments.

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

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
iSelect	92	iSelect Premier	36
iPlus	108	iPlus Premier	36
iBusiness	66		
		Total	338

Note: The room sizes range from 9 sq. m. to 16 sq. m.

Other Facilities

Other facilities include a club lounge, a gymnasium and a business centre.

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 Encumbrance

- i. Offensive Trade Licence from District Lands Office, Hong Kong East dated 20 July 2012, registered vide memorial no. 12082101060027.
- ii. Debenture and Mortgage dated 28 July 2014 in favour of The Hongkong and Shanghai Banking Corporation Limited, registered vide memorial no. 14082802380064.

3. HOTEL OPERATION

Hotel Performance in 2014

Occupancy Rate : 82%

Average Room Rate : HK\$753

Lease Agreement

Lessor : Wise Decade Investments Limited

Lessee : Favour Link International Limited

Term of Lease Agreement : Commencing from the Effective Date⁵⁴ and expiring on 31 December 2019

Rental : The annual rent payable in respect of the first, second and third years of the lease term are 5.00%, 5.25% and 5.50% respectively of HK\$1,650 million.

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

⁵⁴ 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 ⁵⁵ , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of the tenth anniversary of the Effective Date
Base Fee	:	1% of Gross Revenue ⁵⁶ (for so long as the Lease Agreement is in subsistence); or 2% of Gross Revenue (for other cases during the Operating Term)
Incentive Fee	:	1% of the excess of the Adjusted GOP ⁵⁷ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or 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 DETAILS

Licences for Mobile Radio Equipment, Integrated Radio Systems and Others

Number of Licence	:	1
Monthly Licence Fee	:	HK\$60,000
Latest Expiry Date	:	2 September 2017

5. ESTIMATED NET PROPERTY YIELD⁵⁸

5.0%

6. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2014

HK\$1,650,000,000 (HONG KONG DOLLARS ONE BILLION SIX HUNDRED AND FIFTY MILLION)

⁵⁵ According to the HMA, “Effective Date” means 28 July 2014.

⁵⁶ According to the HMA, “Gross Revenue” means all revenue derived from the Hotel.

⁵⁷ According to the HMA, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

⁵⁸ The Estimated Net Property Yield of ICFH is derived from the annualized fixed rental receivable in 2014 divided by the Market Value.

HOTEL MARKET ANALYSIS

HOTEL MARKET OVERVIEW

Over 2014, visitor arrivals recorded a healthy 12.0% year-on-year growth rate, with 60.8 million visitors arriving in Hong Kong. The majority of visitors came from the mainland, representing 77.7% of visitors (47.2 million), and their staggering 16.0% year-on-year increase is the only above-average growth among major markets of origin. The number of same-day mainland visitors continued to surpass their overnight counterparts over the period, standing at 28.2 million (59.6% of total mainland arrivals)⁵⁹.

Overnight visitors from the Americas were the highest spenders on hotel bills at over HK\$3,794 per capita, followed by European and Australian/New Zealand hotel guests in 2013. While still spending the majority of their budgets on shopping (72% in 2013), mainland travellers' aspirations for personal style and leisure mean that they are willing to stay at higher grade and more expensive hotels for a more comfortable and rounded travel experience, with their spending on hotel bills standing at slightly over HK\$1,000 per capita in the same year⁶⁰.

In 2014, with global economic recovery, especially in the U.S. underway, the returning long-haul visitors after the belt-tightening in 2013, as well as an increasing number of overnight business visitors over 2014 to 3.8 million (+7.4%)⁶¹, hotel operators, in particular luxury ones, were able to increase room rates without jeopardizing occupancy. As a result, overall hotel room rates increased by 1.8% to stand at HK\$1,473 per night with occupancy also slightly improved to 90% for 2014. Revenue per available room (RevPAR) increased by 2.9% over the period and amounted to HK\$1,326 per night as a result⁶².

Hotel operators have so far coped well with new hotel room supply, with 2,704 rooms already opened in 2014 and they still managed to post a higher RevPAR. 2015 will see a lower level of supply with 2,403⁶³ rooms expected to be completed during the year, providing further support to the recovering sector.

Hong Kong's hospitality industry outlook over the short to medium term remains optimistic, as a number of positive influences will continue to have an impact on the sector. Leisure travellers will be drawn to Hong Kong by the recently completed and ongoing extensions of both Disneyland and Ocean Park, as well as the second berth of the cruise terminal at Kai Tak which is due to open in 2015 (the first berth was opened in 2013). The appeal of Hong Kong for mainland Chinese as China's most cosmopolitan and prosperous city is expected to endure, in particular for the more affluent and mature groups who now aim for a more complete travel experience and are willing to spend more on hotels and sightseeing. Other factors, such as rising incomes, improving employment prospects, a more global perspective and more leisure time, should also ensure a continuing flow of visitors from across Asia.

⁵⁹ Source: HKTB, Visitor Arrival Statistics – Dec 2014.

⁶⁰ Source: HKTB, Tourist Expenditure Associated to Inbound Tourism 2013.

⁶¹ Source: HKTB, Visitor's Purpose of Visit by Major Market Areas, Jan-Dec 2014

⁶² Source: HKTB, Hotel Room Occupancy Report – Dec 2014.

⁶³ Source: HKTB, Hotel Supply Situation – as at Sep 2014.

The number of business travellers is also expected to further increase, alongside Hong Kong's strengthening role in the Pearl River Delta, China's wealthiest and most advanced region. Hong Kong is increasingly becoming economically integrated with China and today plays an important role as a finance, logistics and business services hub. The recently implemented Hong Kong Shanghai Stock Connect should further enhance such role and thus attract more business travellers to the city.

According to a Hong Kong Trade Development Council (HKTDC) survey⁶⁴, Hong Kong emerged as the most preferred CBD among ten Asian cities⁶⁵. Hong Kong's excellent geographical location, low risk, ease of doing business and a strong institutional structure, to name but a few, were all cited as important factors. All of these positive attributes will continue to strengthen Hong Kong's position as a place for doing regional business and should therefore induce an increasing number of overnight business travellers.

Hong Kong's current transport infrastructure projects will make cross-border travel easier as well as improve mobility within the territory itself. These include the Hong Kong section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link, the Hong Kong–Zhuhai–Macao Bridge (HZMB), a rail connection between the Hong Kong and Shenzhen airports, the South Island Line (rail), the Sha Tin–Central Link (rail), the Tuen Mun–Chek Lap Kok Link and the Tuen Mun Western Bypass. The latest suggestion to develop a 'bridgehead economy' at the northern commercial district (NCD) of the Hong Kong International Airport (HKIA) and at the Hong Kong boundary control point (HKBCP) of the HZMB, which would involve the development of major shopping, dining, entertainment and hotel facilities, should further enhance the attractiveness of Hong Kong to visitors.

In fact, the Hong Kong government has projected visitor arrival figures to reach around 70 million and 100 million in 2017 and 2023 respectively, based on the existing trend and assuming a steady growth of mainland and short-haul visitor arrivals, as well as a very mild growth from the long-haul markets⁶⁶. Nevertheless, these figures may be subject to revision once the review of the Individual Visit Scheme is completed sometime this year, most likely placing some restrictions on the multiple-entry visa mechanism.

However, hotel supply is not expected to keep pace with demand from 2015 onwards, particularly in core tourist areas where site availability is the key constraint of future hotel developments. Therefore, we expect both occupancy and room rates to continue to grow in 2015, but with occupancy rates already at high levels (90%), we expect further improvements in RevPAR to be driven by growth in room rates.

⁶⁴ Hong Kong as Asia's Central Business District, HKTDC Research, November 2012.

⁶⁵ The ten cities include Hong Kong, Singapore, Shanghai, Tokyo, Beijing, Guangzhou, Taipei, Seoul, Kuala Lumpur and Bangkok.

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

1. REGAL AIRPORT HOTEL

With its strategic location at HKIA, RAH benefits from comprehensive transport infrastructure. The phased completion of the airport 'SkyCity', which includes terminals 1 and 2, the SkyPier and the retail/dining/entertainment facilities within SkyPlaza, AsiaWorld-Expo, as well as the SkyCity Nine Hole Golf Course, will generate strong and diversified demand for hotel rooms at RAH. The imminent development of the NCD into a commercial complex, as well as the long-term commercial development on the artificial island for the HKBCP should create further demand for RAH.

Named the world's Best Airport in Smart Travel Asia's 2014 Best in Travel Poll in 2014, HKIA handled 63.3 million passengers and 4.38 million tonnes of air cargo in 2014⁶⁷. The airport is connected to about 180 destinations, including 44 on the mainland, through over 1,000 daily flights by more than 100 airlines. Meanwhile, HKIA's proposed third runway could increase the airport's capacity to handle 620,000 flight movements per year, meeting projected demand up to and possibly beyond 2030. The project has been granted government approval in principle and the Airport Authority Hong Kong (AAHK) has adopted the three-runway system for planning purposes as a future development option. This planned expansion of HKIA's capacity should strengthen its competitiveness within the region, and in turn benefit RAH in the long term.

Aside from HKIA, RAH is also in close proximity to some of Hong Kong's most important tourist attractions. Both Disneyland and Ngong Ping 360 are a 15-minute shuttle bus journey from the airport. Other shopping and dining facilities are located at the nearby CityGate Outlets Shopping Centre.

Given its proximity to the airport as well as ample meetings, incentives, conventions and exhibitions (MICE) facilities, both within the hotel and at AsiaWorld Expo, RAH had a higher proportion of business travellers (46%) than leisure travellers (29%) in 2014. Its location enables RAH to benefit from certain unique business opportunities, including airline crews (24%), as well as emergency layovers due to delays/cancellations of flights (1%), both percentages being significantly higher than other hotels within the Regal REIT portfolio over the same period.

In terms of geographical segmentation of hotel guests, Asia (excluding China) had the highest proportion (40%) for the full year of 2014, followed by mainland China (33%).

The only existing competing project the SkyCity Marriott Hotel, which is in close proximity to AsiaWorld-Expo but further away from HKIA, as well as the Novotel Citygate Hong Kong in Tung Chung. RAH is considered to have a slight advantage over both competitors in terms of the number of airline crews as well as layovers referred by the ground handling unit at HKIA due to its close proximity to the airport, and, as the three hotels have different market positionings and pricing strategies, competition is expected to be minimal.

Based on the slightly positive outlook of the overall hotel industry and supply constraints in the short term, as well as the strategic location of RAH and the comprehensive expansion programme of HKIA, it is expected that the growth in RevPAR at RAH will outperform the overall hotel market in 2015.

⁶⁷ Source: HKIA, Finalized Civil International Air Traffic Statistics at HKIA, Year 2014

2. REGAL HONGKONG HOTEL

RHK is located in Causeway Bay, one of Hong Kong's most popular tourism and retail destinations, and benefits from extensive transport links with the rest of the territory. Causeway Bay MTR Station is just a five-minute walk from RHK, while the hotel is also accessible by taxis, buses and minibuses.

RHK is close to a variety of developments and facilities, including office/shopping developments such as Times Square, Lee Gardens, Hysan Place and SOGO Department Store; business facilities such as the Hong Kong Convention and Exhibition Centre (HKCEC); and recreational facilities such as Victoria Park, the Hong Kong Stadium and the Happy Valley Race Course.

Given its proximity to key office developments, as well as HKCEC, RHK had a significantly higher proportion of business travellers (66%) than leisure travellers (34%) in 2014.

In terms of geographical segmentation of hotel guests, mainland China had the highest proportion (52%) for the full year of 2014, followed by Asia (excluding China) with 30%.

No new hotels were completed in Causeway Bay in 2014. A hotel at 60-66 Jardine's Bazaar is expected to open in the vicinity in 2015⁶⁸, but its scale (99 rooms) is much smaller, thus it has a very different market positioning and client base compared with RHK and constitutes little competition.

Based on the slightly positive outlook of the overall hotel industry and supply constraints in the short term, as well as the strategic location of RHK in Causeway Bay welcoming both business and leisure travellers, it is expected that the growth in RevPAR at RHK will outperform the overall hotel market in 2015.

3. REGAL KOWLOON HOTEL

RKH has access to Hong Kong's extensive rail network via Tsim Sha Tsui East MTR Station, which is a five-minute walk away. Located in Tsim Sha Tsui East, RKH is also well-served by buses, taxis and minibuses, and is also a few minutes' drive from the East Rail Hung Hom MTR Station, which has direct access to mainland China via Lo Wu or Lok Ma Chau MTR Station.

Aside from the office cluster in Tsim Sha Tsui East, which brings ample business travellers to RKH, the proximity of Tsim Sha Tsui as a well-established retail, entertainment and commercial centre is a significant factor contributing to the attractiveness of RKH. Harbour City is both a business and shopping/entertainment hub, while other new shopping/dining additions over the past few years, namely iSquare, The One, K11 and 1881 Heritage, add to the attraction of the district as a key tourist area. Other tourist attractions include The Cultural Centre, Avenue of Stars and the Star Ferry Pier.

Given its proximity to key office developments, both in its immediate vicinity as well as in Tsim Sha Tsui, RKH had a significantly higher proportion of business travellers (64%) than leisure travellers (36%) in 2014.

⁶⁸ Source: HKTB, Hotel Supply Situation – as at Sep 2014

RKH has a diversified hotel guest profile in terms of geographical distribution, with mainland Chinese visitors accounting for 41% of guests in 2014, followed by Asian (excluding China) (38%) and European (12%) guests.

Two hotels were completed in the district in 2014 so far, namely Residence G (29 rooms) and One Minden (76 rooms), with another three hotels supposed to be open towards the end of last year, namely Popway Hotel (63 rooms), an extension of The Bauhinia Hotel (Tsim Sha Tsui) (89 rooms), and a proposed hotel at 6 Knutsford Terrace (50 rooms). In 2015, Austin Hotel (100 rooms) is expected to be completed⁶⁹. None of these newly opened and upcoming hotels can be considered competitors to RKH with their generally smaller scale and difference in locations.

The slightly positive outlook of the overall hotel industry as well as the strategic location of RKH in Tsim Sha Tsui East, welcoming both business and leisure travellers, should provide strong support to demand for RKH, while competition from future projects can be considered minimal. Therefore, it is expected that the growth in RevPAR at RKH will slightly outperform the overall hotel market in 2015.

4. REGAL ORIENTAL HOTEL

ROH is located in Kowloon City, opposite the vibrant Kai Tak Development area (KTD). Although ROH is not served by rail links, Prince Edward Road East on the doorstep of ROH is the major trunk road serving Kowloon East and connects the area with major industrial/business districts including Kwun Tong, Kowloon Bay, Tsim Sha Tsui and Mong Kok.

The major development in the vicinity of ROH is KTD, an integrated business/retail/entertainment and recreational area expected to house 11.4 million sq ft of offices, 8.6 million sq ft of retail/hotels and over 30,000 residential units upon full completion⁷⁰. One of the two cruise terminal berths started operation in 2013⁷¹, while a multi-function sport stadium and an edutainment facility – “Kai Tak Fantasy” – are also planned in the area. All of these are expected to boost guest demand for ROH.

The accessibility of ROH will also be vastly improved upon the completion of the Sha Tin–Central Link, which will connect the New Territories and Central with stations in major Kowloon districts, such as Kai Tak, Ho Man Tin and Hung Hom. The proposed Kai Tak MTR Station will be in close proximity to ROH.

ROH has a balanced hotel guest profile by purpose of visit, with 55% of guests being business travellers, while another 45% of guests staying for vacation purposes in 2014. In terms of geographical distribution, the majority of guests (48%) came from Asia (excluding mainland China) in 2014, followed by mainland China (42%).

No new hotels were completed in Kowloon City in 2014, and there are no new hotels scheduled for completion in 2015 in the area.

Based on the slightly positive outlook of the overall hotel industry and supply constraints in the short term, as well as the strategic location of ROH close to both the Kowloon East business area and KTD, welcoming both business and leisure travellers, it is expected that the growth in RevPAR at ROH will outperform the overall hotel market in 2015.

⁶⁹ Source: HKTB, Hotel Supply Situation – as at Sep 2014

⁷⁰ Source: Development Bureau

⁷¹ Source: Hong Kong Tourism Commission

5. REGAL RIVERSIDE HOTEL

Located in Sha Tin, Hong Kong's largest new town, RRH offers easy access to both the mainland Chinese border and Kowloon via the MTR East Rail. Although not a traditional tourist destination, nearby attractions include the Sha Tin Racecourse and the International Dragon Boat Races in June.

Shopping and entertainment facilities can be found in the nearby New Town Plaza, which has gradually evolved into a regional shopping centre catering to high-spending mainland shoppers. With its increasing appeal to mainland tourists, coupled with easy access to China via railway, 54% of guests staying in RRH in 2014 were mainlanders.

The increasing business appeal of Sha Tin with the completion of the HSBC data centre in Shek Mun in 2013, two commercial buildings by Billion Development under construction in the same area as well as the construction of the Sha Tin–Central Link contributed to larger proportion of business travellers. 49% of RRH's guests were business travellers in 2014, while around 51% of guests were leisure travellers.

No new hotels were completed in Sha Tin in 2014, and there are no new hotels scheduled for completion in 2015 in the area.

The slightly positive outlook of the overall hotel industry, as well as the positioning of RRH hosting leisure travellers, should provide strong support to demand for RRH, while short-term lack of supply should also strengthen its stance in the marketplace. Therefore, it is expected that the growth in RevPAR at RRH will slightly outperform the overall hotel market in 2015.

6. ICLUB WAN CHAI HOTEL

Located in Wan Chai, one of the most vibrant business and entertainment districts in Hong Kong, ICWC is well-served by different modes of transport, with Wanchai MTR Station a five-minute walk away.

Its close proximity to the HKCEC as well as the office cluster in Wan Chai north including Sun Hung Kai Centre, CRC Building and Great Eagle Centre, has made ICWC an ideal place for business travellers, and in 2014, 94% of hotel guests stayed for business purposes.

ICWC had a balanced hotel guest profile by geographical distribution in 2014, with 32% of guests from Asia (excluding China), 29% of guests from mainland China, 15% of guests from Europe and 9% of guests from the Americas.

No new hotels were completed in Wan Chai in 2014, and no new supply is scheduled for completion in the vicinity in 2015⁷². Therefore, ICWC is in a strong position to capture future growth in business traveller demand from the HKCEC and nearby offices, facing no new competition.

The slightly positive outlook of the overall hotel industry as well as the strategic location of ICWC in Wan Chai, welcoming business travellers from the HKCEC and the nearby office cluster, should provide strong support to demand for ICWC, while there is no competition from new projects. Therefore, it is expected that the growth in RevPAR at ICWC will outperform the overall hotel market in 2015.

⁷² Source: HKTB, Hotel Supply Situation – as at Sep 2014

7. ICLUB SHEUNG WAN HOTEL

ICSW is located at 138 Bonham Strand, offering convenient access to core business districts as well as major shopping and tourist areas. The tram line on Des Voeux Road West and the Mass Transit Railway (MTR) Sheung Wan Station are within a ten-minute walk of the hotel, which is also accessible by taxis, buses and minibuses.

The Hong Kong-Macau Ferry terminal, also a ten-minute walk from ICSW, provides ferry and helicopter services to Macau, and ferry services to a number of cities in southern China including Zhongshan, Zhuhai and Panyu in Guangzhou, and Shekou in Shenzhen. Tsim Sha Tsui and Kowloon Station are both 15-minute drives from ICSW via the Western Harbour Crossing.

The MTR West Island Line (WIL), which was just opened in late 2014, is 3-km long with three new stations (including Sai Ying Pun Station, University Station and Kennedy Town Station). The WIL provides the impetus for the rejuvenation of traditional districts around ICSW.

ICSW is close to a number of high-quality Grade A office buildings including The Center, 181 Queen's Road Central and Cosco Tower. They provide affordable alternatives to tenants, particularly from the business services industry, when compared to Grade A offices in Central, but still offer the convenience of a fringe Central location.

ICSW is close to a number of tourist attractions, including Bonham Strand West (known for its specialty stores, quality dried foods and Chinese medicines), Des Voeux Road West (famous for its specialty stores selling varieties of exotic dried seafood) and Western Market (one of the oldest heritage buildings in Hong Kong, renovated in 1991 with themed shops).

With its proximity to both office clusters and tourist attractions, it is understandable that ICSW had a balanced guest mix profile with 59% business guests and 41% leisure guests in 2014.

ICSW had an Asian-focus hotel guest profile by geographical distribution in 2014, with 42% of guests from mainland China, followed by 39% of guests from Asia (excluding China).

One small hotel, ONE96 (29 rooms), was completed in Sheung Wan in 2014⁷³, with its significantly smaller scale, the competition to ICSW is minimal. In 2015, two hotels will be completed, namely Best Western Hotel (214 rooms) and The Kush Hotel (199 rooms). Given similar size and location, the two upcoming hotels may have some overlap of customer mix with ICSW.

Based on the slightly positive outlook of the overall hotel industry and the balanced supply situation in the next few years, it is expected that the growth in both occupancy and room rates, as well as RevPAR of ICSW will be in line with the overall hotel market in 2015.

⁷³ Source: HKTB, Hotel Supply Situation – as at Sep 2014

8. ICLUB FORTRESS HILL HOTEL

ICFH is located in North Point, one of the key decentralised business districts and a well-established residential area on Hong Kong Island. North Point benefits from extensive transport links, such as the Eastern Corridor, providing convenient access to the rest of the territory. The Fortress Hill Station of the Mass Transit Railway (MTR) is a five-minute walk from ICFH, and the Tin Hau MTR Station is also nearby. ICFH is also easily accessible by taxis, buses and trams.

ICFH is close to several office developments, such as 169 Electric Road, AIA Tower, Fortress Tower and Citicorp Centre. Recreational facilities such as Victoria Park, the Hong Kong Stadium and the Happy Valley Race Course are accessible via MTR and buses. The neighbouring district, Causeway Bay (only two stations away on the MTR), is a world-class retail destination, with key shopping developments such as Times Square, Lee Gardens, Hysan Place and SOGO Department Store. Quarry Bay is one MTR station away from North Point and is another key decentralised business district comprising the significant Island East office development.

With close proximity to both office and retail/entertainment clusters on Hong Kong Island, ICFH has a 46-54 split of business and leisure hotel guest mix in 2014.

ICFH had a balanced hotel guest profile by geographical distribution in 2014, with 24% of guests from Asia (excluding China), 22% of guests from mainland China, and 54% of guests from other countries.

Besides ICFH, only one hotel, Somerset Victoria Park Hong Kong, was completed in North Point in 2014. The 92-room hotel is expected to be operated as a serviced apartment, posing little threat to ICFH. Between 2015 and 2019, three more hotels and hotel-style apartments will open in the vicinity, namely, the 66-room TUVE at 14–16 Tsing Fung Street (2015), the proposed hotel at Oil Street (840 rooms, 2017) and the proposed hotel at North Point Estate Lane and Shu Kuk Street (747 rooms, 2018)⁷⁴. In the longer term, three more hotels will be erected at 13 & 15 Mercury Street, 8A–8B and 17 and 19 Wing Hing Street, but no detailed information is available at this stage. The hotel projects at Oil Street and the ex-North Point Estate Site will be large-scale projects, targeting first-tier, high-spending business travellers, as well as long-haul tourists. As such, these two future hotels are positioned differently to ICFH and are therefore not expected to compete significantly with ICFH. However, Newton Hotel (362 rooms), located at 218 Electric Road, will pose some threat to iclub Fortress Hill Hotel as it is located only one street block away and is of a similar scale. The 277-room Empire Hotel, located at 8 Wing Hing Street, will also pose some threat to ICFH, as it is just four street blocks away and is of a similar size. Empire Hotel targets business travellers and is run by a local brand operator.

Based on the slightly positive outlook of the overall hotel industry and the balanced supply situation in the next few years, it is expected that the growth in both occupancy and room rates, as well as RevPAR of ICFH will be in line with the overall hotel market in 2015.

⁷⁴ Source: HKTB, Hotel Supply Situation as of Sep 2014.

SUMMARY OF PROPERTIES PORTFOLIO

As at 31st December, 2014

	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

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, 2014 HK\$'000	Year ended 31st December, 2013 HK\$'000	Year ended 31st December, 2012 HK\$'000	Year ended 31st December, 2011 HK\$'000	Year ended 31st December, 2010 HK\$'000
Gross rental and hotel revenue	1,000,711	866,962	844,350	736,034	909,974
Net rental and hotel income	971,371	837,106	814,390	707,029	899,259
Profit before tax and distributions to Unitholders	357,753	436,293	3,643,729	3,070,523	1,120,407
Profit for the year, before distributions to Unitholders	238,454	342,558	3,548,799	2,997,263	997,093
Distributable income for the year attributable to Unitholders	532,924	497,076	464,658	397,886	682,879
Total distributions per Unit	HK\$0.162	HK\$0.150	HK\$0.140	HK\$0.120	HK\$0.190

Summary of the assets and liabilities

	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
Non-current assets:					
Property, plant and equipment	691,000	700,000	740,000	615,000	—
Investment properties	23,428,000	20,380,000	20,292,000	17,154,000	14,880,000
Other non-current assets	—	948,000	—	—	—
Current assets	168,502	1,174,951	169,756	153,306	227,343
Total assets	24,287,502	23,202,951	21,201,756	17,922,306	15,107,343
Current liabilities	234,870	335,624	117,909	4,741,639	187,669
Non-current liabilities	8,550,062	7,093,191	5,152,801	528,818	5,000,063
Total liabilities	8,784,932	7,428,815	5,270,710	5,270,457	5,187,732
Net assets attributable to Unitholders	15,502,570	15,774,136	15,931,046	12,651,849	9,919,611
Net asset value per Unit attributable to Unitholders	HK\$4.759	HK\$4.843	HK\$4.891	HK\$3.884	HK\$3.060

