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## **REGAL REAL ESTATE INVESTMENT TRUST**

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

**(Stock Code: 1881)**

**Managed by**



### **CONTINUING CONNECTED TRANSACTIONS — LEASE EXTENSIONS FOR ICLUB SHEUNG WAN HOTEL AND ICLUB FORTRESS HILL HOTEL**

The Board announces that the lease term of the SW Lease Agreement for the iclub Sheung Wan Hotel and the FH Lease Agreement for the iclub Fortress Hill Hotel will each be extended for a further five year period commencing from 1 January 2020 to expire on 31 December 2024. Save for the extension of the lease term as mentioned above, all the other existing terms and conditions of the SW Lease Agreement and the FH Lease Agreement will remain unchanged.

References are made to the circular (the “**Circular**”) of Regal Real Estate Investment Trust (“**Regal REIT**”) dated 29 June 2013, as well as the announcements of Regal REIT dated 29 June, 2013, 18 July 2013, 10 February 2014, 15 May 2014, 14 July 2014 and 28 July 2014, respectively. Unless the context requires otherwise, terms used in this announcement shall have the same meaning as those defined in the Circular.

## **A. BACKGROUND**

The iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel were leased to Favour Link (as the Lessee) upon completion of the SW Transaction and the NP Transaction on 10 February 2014 and 28 July 2014, respectively. The initial lease term of the SW Lease Agreement and the FH Lease Agreement will each expire on 31 December 2019. Pursuant to the SW Lease Agreement and the FH Lease Agreement, the lease term for the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel can each be extended for a further five year period commencing immediately after the expiry of the initial lease terms (i.e., 31 December 2019) to 31 December 2024 at the SW Lessor's and the FH Lessor's sole discretion, respectively.

The Board announces that the lease term of the SW Lease Agreement for the iclub Sheung Wan Hotel and the FH Lease Agreement for the iclub Fortress Hill Hotel will each be extended for a further five year period commencing from 1 January 2020 to expire on 31 December 2024. Save for the extension of the lease term as mentioned above, all the other existing terms and conditions of the SW Lease Agreement and the FH Lease Agreement will remain unchanged. During the Extended Lease Term, all the existing terms and conditions of each of the SW Hotel Management Agreement, the FH Hotel Management Agreement, the SW Lease Guarantee and the FH Lease Guarantee will also remain unchanged.

## **B. LEASE EXTENSION OF THE SW LEASE AGREEMENT FOR ICLUB SHEUNG WAN HOTEL**

On 17 May 2019, pursuant to the terms of the SW Lease Agreement and upon the exercise of its discretion, the SW Lessor served a written notice to Favour Link (as the Lessee) to extend the lease term of the iclub Sheung Wan Hotel for a further five year period, commencing from 1 January 2020 and expiring on 31 December 2024 (both days inclusive), which exercise notice has been duly acknowledged and accepted by Favour Link (as the Lessee). The REIT Manager confirms that the summary below contains all the key terms of the SW Lease Agreement.

The key terms of the SW Lease Agreement are set out below:

Lessor:	SW Lessor (Tristan Limited)
Lessee:	Favour Link
Initial Lease Term:	Commencing from 10 February 2014 (date of the SW Lease Agreement) to 31 December 2019 (both days inclusive).

Extended Lease Term:	Five years commencing from 1 January 2020 to expire on 31 December 2024 (both days inclusive).
Rental for the periods from 10 February 2014 to 9 February 2017:	An annual aggregate pre-determined fixed rents of HK\$79.00 million, HK\$82.95 million and HK\$86.90 million for the first three years of the lease term, respectively.
Rental for the periods from 10 February 2017 to 31 December 2019:	The annual rents (comprising Base Rent and Variable Rent) and the amount of the security deposit were determined based on market rental review by an independent professional property valuer jointly appointed by the SW Lessor and Favour Link.
Rental for Extended Lease Term (from 1 January 2020 to 31 December 2024):	The annual rents (comprising Base Rent and Variable Rent) and the amount of the security deposit will be determined based on market rental review by an independent professional property valuer to be jointly appointed by the SW Lessor and Favour Link. Unitholders will be informed of the details of the market rental review for each lease year by way of an announcement.
Early Termination:	<p>The SW Lessor has the right to terminate the SW Lease Agreement at any time during the term of the SW Lease Agreement by giving six months' prior written notice to Favour Link but without compensation, interest or costs paid by the SW Lessor to Favour Link and Favour Link will not have any claims whatsoever against the SW Lessor for such early termination.</p> <p>The SW Lessor also has the right to terminate the SW Lease Agreement in the event of, among other things, failure by Favour Link to make rental payments or breach by Favour Link of certain material undertakings under the SW Lease Agreement or relevant hotel management agreement.</p>

Pursuant to the SW Lease Guarantee, during the Extended Lease Term, Regal will continue to guarantee: (a) Favour Link's obligations to pay to the SW Lessor and the Trustee, on demand by the SW Lessor or the Trustee (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 SW Lessor 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 Favour Link to be observed and performed.

For the 2018 financial year, the total revenue derived from the leasing of the iclub Sheung Wan Hotel was HK\$46.6 million, which comprised of the Base Rent of HK\$42.0 million and the Variable Rent (based on 50% sharing of the excess of the net property income of HK\$51.2 million over the Base Rent) of HK\$4.6 million, representing 4.6% of the total revenue of HK\$1,021.9 million of Regal REIT. The market value of HK\$1,660.0 million of the iclub Sheung Wan Hotel represented approximately 5.9% of the total gross assets of HK\$27,981.8 million of Regal REIT as at 31 December 2018.

### **C. LEASE EXTENSION OF THE FH LEASE AGREEMENT FOR ICLUB FORTRESS HILL HOTEL**

On 17 May 2019, pursuant to the terms of the FH Lease Agreement and upon the exercise of its discretion, the FH Lessor served a written notice to Favour Link (as the Lessee) to extend the lease term of the iclub Fortress Hill Hotel for a further five year period, commencing from 1 January 2020 and expiring on 31 December 2024 (both days inclusive), which exercise notice has been duly acknowledged and accepted by Favour Link (as the Lessee). The REIT Manager confirms that the summary below contains all the key terms of the FH Lease Agreement.

The key terms of the FH Lease Agreement are set out below:

Lessor:	FH Lessor (Wise Decade Investments Limited)
Lessee:	Favour Link
Initial Lease Term:	Commencing from 28 July 2014 (date of the FH Lease Agreement) to 31 December 2019 (both days inclusive).
Extended Lease Term:	Five years commencing from 1 January 2020 to expire on 31 December 2024 (both days inclusive).

Rental for the periods from 28 July 2014 to 27 July 2017:	An annual aggregate pre-determined fixed rents of HK\$82.50 million, HK\$86.625 million and HK\$90.75 million for the first three years of the lease term, respectively.
Rental for the periods from 28 July 2017 to 31 December 2019:	The annual rents (comprising Base Rent and Variable Rent) and the amount of the security deposit were determined based on market rental review by an independent professional property valuer jointly appointed by the FH Lessor and Favour Link.
Rental for Extended Lease Term (from 1 January 2020 to 31 December 2024):	The annual rents (comprising Base Rent and Variable Rent) and the amount of the security deposit will be determined based on market rental review by an independent professional property valuer to be jointly appointed by the FH Lessor and Favour Link. Unitholders will be informed of the details of the market rental review for each lease year by way of an announcement.
Early Termination:	<p>The FH Lessor has the right to terminate the FH Lease Agreement at any time during the term of the FH Lease Agreement by giving six months' prior written notice to Favour Link but without compensation, interest or costs paid by the FH Lessor to Favour Link and Favour Link will not have any claims whatsoever against the FH Lessor for such early termination.</p> <p>The FH Lessor also has the right to terminate the FH Lease Agreement in the event of, among other things, failure by Favour Link to make rental payments or breach by Favour Link of certain material undertakings under the FH Lease Agreement or relevant hotel management agreement.</p>

Pursuant to the FH Lease Guarantee, during the Extended Lease Term, Regal will continue to guarantee: (a) Favour Link's obligations to pay to the FH Lessor and the Trustee, on demand by the FH Lessor or the Trustee (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 FH Lessor 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 Favour Link to be observed and performed.

For the 2018 financial year, the total revenue derived from the leasing of the iclub Fortress Hill Hotel was HK\$44.0 million, which comprised of the Base Rent of HK\$42.4 million and the Variable Rent (based on 50% sharing of the excess of the net property income of HK\$45.6 million over the Base Rent) of HK\$1.6 million, representing 4.3% of the total revenue of HK\$1,021.9 million of Regal REIT. The market value of HK\$1,700.0 million of the iclub Fortress Hill Hotel represented approximately 6.1% of the total gross assets of HK\$27,981.8 million of Regal REIT as at 31 December 2018.

#### **D. REASONS FOR THE EXTENSIONS OF THE TERMS OF THE SW LEASE AGREEMENT AND THE FH LEASE AGREEMENT**

The REIT Manager is of the view that the exercise of the lease extension options to extend the terms of the SW Lease Agreement and the FH Lease Agreement for further five year periods can ensure that Regal REIT continues to receive stable rental income from iclub Sheung Wan Hotel and iclub Fortress Hill Hotel during the Extended Lease Term. The REIT Manager considers that, if there were to be a new lessee, time and costs will be involved for the new lessee to adapt to the existing business operations of the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel and to establish a co-operative arrangement with the Hotel Manager. The REIT Manager also considers that in keeping the existing lease/management structure of the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel unchanged, the smooth operations of the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel managed by the Hotel Manager can continue to be maintained. A change in the lessee may unnecessarily disrupt the business operations of the two hotels.

The SW Lease Agreement and the FH Lease Agreement have been in place since the completion date of the acquisition of the two hotels and Favour Link has timely met all of its obligations under each of the SW Lease Agreement and the FH Lease Agreement. With the proven track record of Favour Link, the REIT Manager is satisfied with the overall performance of Favour Link and considers it advantageous to maintain the lease relationship with Favour Link. In addition, with the mechanism for the determination of the annual rentals for the two hotels by an independent professional property valuer basing on the updated market situation, the REIT Manager believes that this is a fair and effective way to determine the annual market rental package during the Extended Lease Term.

If the terms of the SW Lease Agreement and the FH Lease Agreement were not extended, these two leases will expire while the SW Hotel Management Agreement and the FH Hotel Management Agreement remain in subsistence. The 5-year lease extensions can avoid an uplift in the hotel management fees during the Extended Lease Term which could have a material adverse impact on the financial performance of Regal REIT.

Based on the foregoing and having taken into account the alignment in the economic interests of Favour Link and the Hotel Manager (both being wholly-owned subsidiaries of Regal), the REIT Manager considers the 5-year lease extensions pursuant to the terms of the SW Lease Agreement and the FH Lease Agreement to be the best available option for Regal REIT.

## **E. OPINION OF THE BOARD**

The Board (including all the Independent Non-executive Directors) (other than Mr. LO Yuk Sui, Miss LO Po Man, Mr. Donald FAN Tung, Mr. Jimmy LO Chun To and Mr. Kenneth NG Kwai Kai (who are directors of Favour Link and/or Regal which is the parent company of Favour Link) and Mr. Bowen Joseph LEUNG Po Wing, GBS, JP and Hon. Abraham SHEK Lai Him, GBS, JP (who are independent non-executive directors of Paliburg Holdings Limited, being the controlling shareholder of Regal), who were deemed to have interests in the lease extensions) considers that the 5-year lease extensions pursuant to the terms of the SW Lease Agreement and the FH Lease Agreement are (a) entered into in the ordinary and usual course of business of Regal REIT; (b) on normal commercial terms and at arm's length; and (c) fair and reasonable and in the interests of the independent Unitholders, as well as the Unitholders and Regal REIT as a whole.

## **F. OPINION OF THE TRUSTEE**

Based on the opinion of the Board in this announcement and the information and assurances provided by the REIT Manager, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code, is of the view that (i)(a) the 5-year lease extensions pursuant to the terms of the SW Lease Agreement and the FH Lease Agreement, are fair and reasonable and in the interests of independent Unitholders, as well as the Unitholders and Regal REIT as a whole and (b) is consistent with the REIT Manager's investment objectives for Regal REIT; and (ii) based on the foregoing matters, the Trustee has no objection to the REIT Manager proceeding with the 5-year lease extensions pursuant to the terms of the SW Lease Agreement and the FH Lease Agreement.

## **G. CONTINUING CONNECTED TRANSACTIONS**

As at the date of this announcement, Favour Link is a wholly-owned subsidiary of Regal and Regal is a significant Unitholder holding approximately 74.89% of the outstanding units of Regal REIT. Therefore, Favour Link is regarded as a connected person of Regal REIT under paragraph 8.1 of the REIT Code and the extension of the lease terms of the SW Lease Agreement and the FH Lease Agreement for further five year periods constitute continuing connected transactions for Regal REIT.

Independent Unitholders' approval for entering into the SW Lease Agreement and the FH Lease Agreement (including the terms for the extension of the lease terms for further five year periods commencing from 1 January 2020 to 31 December 2024) was obtained at the extraordinary general meeting of Regal REIT held on 18 July 2013 by way of an Ordinary Resolution.

Pursuant to the waiver granted by the SFC on 17 July 2013, both the SW Lease Agreement and the FH Lease Agreement are exempt from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code with respect to continuing connected transactions, subject to the terms and conditions as set out in the announcement of Regal REIT dated 18 July 2013. The REIT Manager undertakes that it will continue to comply with the terms and conditions of the waiver.



## **H. INFORMATION ON REGAL REIT, REGAL AND FAVOUR LINK**

### **REGAL REIT**

Regal REIT is a collective investment scheme authorised by the SFC and listed on the main board of The Stock Exchange of Hong Kong Limited. Regal REIT is a real estate investment trust with DB Trustees (Hong Kong) Limited as its trustee. It invests primarily in real estate that wholly or primarily comprises hotels, other hospitality related properties or commercial properties and uses the income arising from such properties to provide stable returns to the Unitholders. As at the date of this announcement, Regal REIT owns a total of nine hotel properties which are located across different districts in Hong Kong.

### **REGAL AND FAVOUR LINK**

Regal is a company incorporated in Bermuda with limited liability, whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 78). The principal business activities of its subsidiaries are hotel ownership, hotel operation and management, investment in Regal REIT, asset management of Regal REIT, property development and investment, aircraft ownership and leasing and other investments including financial asset investments. Favour Link is incorporated in Hong Kong and is a wholly-owned subsidiary of Regal.

This announcement is made pursuant to paragraph 10.3 of the REIT Code.

### **DEFINITIONS**

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

“Board”	means the board of Directors of the REIT Manager;
“connected person”	has the meaning ascribed to it under the REIT Code;
“Directors”	means the directors of the REIT Manager;
“Extended Lease Term”	means the lease term commencing from 1 January 2020 to expire on 31 December 2024;
“Favour Link”	means Favour Link International Limited, a wholly-owned subsidiary of Regal and the lessee in each of the FH Lease Agreement and the SW Lease Agreement;

“FH Hotel Management Agreement”	means the hotel management agreement for iclub Fortress Hill Hotel dated 28 July 2014;
“FH Lease Agreement”	means the lease agreement for iclub Fortress Hill Hotel entered into between FH Lessor and Favour Link on 28 July 2014;
“FH Lease Guarantee”	means the lease guarantee for iclub Fortress Hill Hotel dated 28 July 2014;
“FH Lessor”	means Wise Decade Investments Limited, a wholly-owned subsidiary of Regal REIT and the direct owner of iclub Fortress Hill Hotel;
“Hotel Manager”	means Regal Hotels International Limited, a wholly-owned subsidiary of Regal;
“iclub Fortress Hill Hotel”	situated at 18 Merlin Street, North Point, Hong Kong;
“iclub Sheung Wan Hotel”	situated at 138 Bonham Strand, Sheung Wan, Hong Kong;
“Independent Non-executive Directors”	means the independent non-executive directors of the REIT Manager;
“Regal”	means Regal Hotels International Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 78) and a connected person of Regal REIT;
“Regal REIT”	means Regal Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO (Stock Code: 1881);
“REIT Code”	means The Code on Real Estate Investment Trusts issued by the SFC, as amended, supplemented and/or otherwise modified from time to time;
“REIT Manager”	means Regal Portfolio Management Limited, as the manager of Regal REIT;
“SFC”	means the Securities and Futures Commission of Hong Kong;

“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented and/or otherwise modified from time to time;
“SW Hotel Management Agreement”	means the hotel management agreement for iclub Sheung Wan Hotel dated 10 February 2014;
“SW Lease Agreement”	means the lease agreement for iclub Sheung Wan Hotel entered into between SW Lessor and Favour Link on 10 February 2014;
“SW Lease Guarantee”	means the lease guarantee for iclub Sheung Wan Hotel dated 10 February 2014;
“SW Lessor”	means Tristan Limited, a wholly-owned subsidiary of Regal REIT and the direct owner of iclub Sheung Wan Hotel;
“Trust Deed”	means the trust deed constituting Regal REIT dated 11 December 2006 as amended, supplemented and/or otherwise modified from time to time; and
“Unitholders”	means any persons registered as holding unit(s) of Regal REIT.

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

Hong Kong, 17 May 2019

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