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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**



### **CONNECTED PARTY TRANSACTION — NEW TENANCY AGREEMENT**

Reference is made to the announcement dated 20 January 2017 issued by Regal REIT in relation to, among other matters, the Original Tenancy Agreement, which is due to expire on 19 January 2020. Following arm's length negotiations, Sonnix (a wholly-owned subsidiary of Regal REIT), as landlord, entered into a New Tenancy Agreement with Cheerview, as tenant, for the leasing of the Premises on 17 January 2020. As Regal is a significant Unitholder holding approximately 74.89% of the outstanding units of Regal REIT, Cheerview is regarded as a connected person of Regal REIT under paragraph 8.1 of the REIT Code and the New Tenancy Agreement in respect of the leasing of the Premises constitutes a connected party transaction of Regal REIT.

Based on the monthly rental, the management fee and the estimated amount of other miscellaneous fees payable during the term of the New Tenancy Agreement, it is expected that the aggregate maximum amount payable by Cheerview to Sonnix in respect of the New Tenancy Agreement for each of the three years ending 19 January 2021, 2022 and 2023 should not exceed HK\$2,000,000.

As the Maximum Transaction Amount payable by Cheerview to Sonnix in respect of the leasing of the Premises for each of the three years ending 19 January 2021, 2022 and 2023 and the aggregate Maximum Transaction Amount for the full term of the New Tenancy Agreement will be less than 5% of the latest net asset value of Regal REIT (as disclosed in the latest published audited accounts of Regal REIT for the year ended 31 December 2018 and adjusted for the 2018 final distributions made in 2019), pursuant to paragraph 8.9 of the REIT Code, Unitholders' prior approval is not required for the leasing transaction in respect of the Premises under the terms of the New Tenancy Agreement.

## **A. INTRODUCTION**

Reference is made to the announcement dated 20 January 2017 issued by Regal REIT in relation to, among other matters, the Original Tenancy Agreement, which is due to expire on 19 January 2020. Following arm's length negotiations, Sonnix (a wholly-owned subsidiary of Regal REIT), as landlord, entered into a new tenancy agreement with Cheerview, as tenant, for the leasing of the Premises for three years commencing on 20 January 2020 and expiring on 19 January 2023 (both days inclusive) (the "New Tenancy Agreement") on 17 January 2020.

## **B. NEW TENANCY AGREEMENT**

The principal terms of the New Tenancy Agreement are set out below:

Date:	17 January 2020
Parties:	Sonnix Limited as landlord Cheerview Limited as tenant
Premises:	Shop Nos. A and B, G/F., No. 211 Johnston Road, Wanchai, Hong Kong, which is part of iclub Wan Chai Hotel
Tenancy term:	Three years, from 20 January 2020 to 19 January 2023 (both days inclusive)
Rental:	HK\$130,000.00 per calendar month (exclusive of air-conditioning charges, management fees, government rates and other outgoing expenses which are all payable by the tenant) payable monthly in advance
Management fees:	HK\$14,294.70 per calendar month (subject to revision from time to time)

Other miscellaneous fees:	Cheerview is responsible to pay for the utilities charges and other service fees in respect of the Premises
Security deposit:	HK\$432,884.10 in the form of cash payable upon the signing of the New Tenancy Agreement
Early Termination:	Cheerview has the right to terminate the New Tenancy Agreement without any compensation at any time after a period of six months from 20 January 2020 with two months' prior written notice
Renewal option:	Cheerview shall be entitled to an option to renew the tenancy of the Premises for a further three years from the date of expiry of the New Tenancy Agreement at market rent to be determined by the principal valuer of Regal REIT

Based on the monthly rental, the management fee and the estimated amount of other miscellaneous fees payable during the term of the New Tenancy Agreement, it is expected that the aggregate maximum amount payable by Cheerview to Sonnix in respect of the New Tenancy Agreement for each of the three years ending 19 January 2021, 2022 and 2023 should not exceed HK\$2,000,000 (the “**Maximum Transaction Amount**”).

### **C. REASONS FOR ENTERING INTO THE NEW TENANCY AGREEMENT**

Due to the imminent expiry of the Original Tenancy Agreement on 19 January 2020, Sonnix (as landlord) had commenced negotiations with Cheerview regarding a lease extension some time ago. In the meantime, Sonnix had also attempted to identify other potential lessees, but the responses were rather negative in view of the current unfavourable market conditions. Following further negotiations with Cheerview, Cheerview agreed to enter into the New Tenancy Agreement for the leasing of the Premises for a term of three years from 20 January 2020 to 19 January 2023, instead of extending the Original Tenancy Agreement, subject to the inclusion of a right for Cheerview to early terminate the tenancy after a period of six months from 20 January 2020 with two months' prior written notice. The granting of such an early termination right to the tenant is not uncommon in the current market environment. Save for the addition of the early termination right and the slight reduction in the amount of the monthly rental, the other provisions in the New Tenancy Agreement are substantially the same as those in the Original Tenancy Agreement. The overall terms of the New Tenancy Agreement have been negotiated on an arm's length basis and the monthly rental chargeable under the New Tenancy Agreement has been assessed by CBRE Limited, the principal valuer of Regal REIT, and is considered to

be fair and reasonable, consistent with and comparable to the current market rental levels for such premises in similar locations. CBRE Limited is of the view that the terms of the New Tenancy Agreement were on normal commercial terms under prevailing market conditions. The management fees payable by Cheerview on a disbursement basis were determined based on the level of management fees chargeable by the building manager of No. 211 Johnston Road, Wanchai at which the Premises is located.

#### **D. OPINION OF THE BOARD**

The Board (including all the independent non-executive Directors but excluding those Directors who are interested or deemed to be interested in the New Tenancy Agreement) consider that the New Tenancy Agreement was entered into in the ordinary and usual course of business of Regal REIT and its terms were negotiated at arm's length and were on normal commercial terms, are fair and reasonable and are in the best interests of Regal REIT and the Unitholders (including the independent Unitholders) as a whole, and the leasing of the Premises to Cheerview pursuant to the New Tenancy Agreement is consistent with the REIT Manager's investment objectives for Regal REIT.

#### **E. OPINION OF THE TRUSTEE**

Based on 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 terms of the New Tenancy Agreement are fair and reasonable and in the interests of Regal REIT, the Unitholders (including the independent Unitholders) as a whole and (b) the leasing of the Premises to Cheerview pursuant to the New Tenancy Agreement 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 Sonnix entering into the New Tenancy Agreement.

#### **F. CONNECTED PARTY TRANSACTION**

As at the date of this announcement, Cheerview 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, Cheerview is regarded as a connected person of Regal REIT under paragraph 8.1 of the REIT Code and the New Tenancy Agreement in respect of the leasing of the Premises constitutes a connected party transaction of Regal REIT.

As the Maximum Transaction Amount payable by Cheerview to Sonnix in respect of the leasing of the Premises for each of the three years ending 19 January 2021, 2022 and 2023 and the aggregate Maximum Transaction Amount for the full term of the New Tenancy Agreement will be less than 5% of the latest net asset value of Regal REIT (as disclosed in the latest published audited accounts of Regal REIT for the year ended 31 December 2018 and adjusted for the 2018 final distributions made in 2019), pursuant to paragraph 8.9 of the REIT Code, Unitholders' prior approval is not required for the leasing transaction in respect of the Premises under the terms of the New Tenancy Agreement.

A brief summary of the leasing transaction in respect of the Premises during the term of the New Tenancy Agreement will be included in Regal REIT's next published annual report in accordance with paragraph 8.14 of the REIT Code and also in subsequent annual reports of Regal REIT in accordance with paragraph 8.15 of the REIT Code.

## **G. REVIEW PROCESS**

The leasing transaction in respect of the Premises under the New Tenancy Agreement will also be subject to the following review process:

### *(i) Auditors' review procedures*

In respect of each relevant financial period, the REIT Manager shall engage and agree with the auditors of Regal REIT to perform certain review procedures on the leasing transaction in respect of the Premises under the New Tenancy Agreement. The auditors will then report to the REIT Manager on the factual findings based on the work performed by them (and a copy of such report will be provided to the SFC), confirming whether such leasing transaction: (a) has received the approval of the Board (including the approval of the Independent Non-executive Directors); and (b) has been entered into in accordance with the terms of the New Tenancy Agreement and the REIT Manager's internal procedures governing the transactions. The auditors will also review that the aggregate amount payable in respect of the New Tenancy Agreement for each of three years has not exceeded HK\$2,000,000.

### *(ii) Review by the Independent Non-executive Directors*

The Independent Non-executive Directors shall review the leasing transaction in respect of the Premises under the New Tenancy Agreement annually and confirm in Regal REIT's annual report for the relevant financial period that such leasing transaction has been 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 terms of the New Tenancy Agreement and the REIT Manager's internal procedures governing them (if any) on terms that are fair and reasonable and in the best interests of the Unitholders as a whole.

*(iii) Access to books and records*

The REIT Manager shall allow, and shall procure the counterparty to the New Tenancy Agreement to allow, the auditors of Regal REIT sufficient access to their respective records for the purpose of reporting on the leasing transaction in respect of the Premises.

*(iv) Notification to the SFC*

The REIT Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the Independent Non-executive Directors will not be able to confirm the matters set out in (i) and/or (ii) above.

The REIT Manager will comply with all connected party transactions requirements under Chapter 8 of the REIT Code in relation to the New Tenancy Agreement, including whether it is further renewed or varied, unless any waiver is granted in respect of the same.

## **H. INFORMATION ON REGAL REIT, REGAL AND CHEERVIEW**

### **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 properties which are located across different districts in Hong Kong.

## **REGAL AND CHEERVIEW**

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. Cheerview is incorporated in Hong Kong and is a wholly-owned subsidiary of Regal.

This announcement is made pursuant to paragraphs 8.14, 10.3 and 10.4 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;
“Cheerview”	means Cheerview Limited, a wholly-owned subsidiary of Regal;
“connected person”	has the meaning ascribed to it under the REIT Code;
“Directors”	means the directors of the REIT Manager;
“iclub Wan Chai Hotel”	situated at No. 211 Johnston Road, Wanchai, Hong Kong and comprises a major portion of the Ground floor including shops A, B and C, 22 entire upper floors (from the 5th to 29th floors, of which 13th, 14th and 24th floors are excluded), a flat roof on the 3rd floor, together with the eastern and western elevations of external walls and architectural feature at roof top and upper roof of a 26-storey composite building. The iclub Wan Chai Hotel (other than shops A and B at Ground floor and 27th to 29th floors which are held for generating rental income) is self-operated by Regal REIT;
“Independent Non-executive Directors”	means the independent non-executive directors of REIT Manager;

“Original Tenancy Agreement”	means the tenancy agreement dated 19 January 2017 for the leasing of the Premises entered into between Sonnix and Cheerview, which is due to expire on 19 January 2020;
“Premises”	means Shop Nos. A and B, G/F., No. 211 Johnston Road, Wanchai, Hong Kong, which is part of iclub Wan Chai Hotel;
“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;
“Sonnix”	means Sonnix Limited, a wholly-owned subsidiary of Regal REIT and the direct owner of the Premises;
“Trust Deed”	means trust deed constituting Regal REIT dated 11 December 2006, as amended, supplemented and/or otherwise modified from time to time;



“Trustee” means DB Trustees (Hong Kong) Limited, as trustee of Regal REIT; 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, 20 January 2020

*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.*