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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 TRANSACTION - LEASE EXTENSION FOR ICLUB MA TAU WAI HOTEL**

The Board announces that the lease term of the Lease Agreement for the iclub Ma Tau Wai Hotel will be extended for a further term commencing from 4 September 2022 and expiring on 31 December 2027. Save for the extension of the lease term as mentioned above, all the other existing terms and conditions of the Lease Agreement will remain unchanged.

References are made to the circular (the “**Circular**”) of Regal Real Estate Investment Trust (“**Regal REIT**”) dated 30 June 2017, as well as the announcements of Regal REIT dated 30 June 2017, 20 July 2017 and 4 September 2017, 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 Ma Tau Wai Hotel was leased to Favour Link (as the Lessee) upon completion of the Transaction on 4 September 2017. The initial lease term of the Lease Agreement will expire on 3 September 2022. Pursuant to the Lease Agreement, the lease term for the iclub Ma Tau Wai Hotel can be extended for a further term commencing from 4 September 2022, the date immediately following the date of expiration of the initial lease term in 2022, to 31 December 2027 at the Lessor's sole discretion.

The Board announces that the lease term of the Lease Agreement for the iclub Ma Tau Wai Hotel will be extended for a further term commencing from 4 September 2022 and expiring on 31 December 2027. Save for the extension of the lease term as mentioned above, all the other existing terms and conditions of the Lease Agreement will remain unchanged. During the Extended Lease Term, all the existing terms and conditions of the Hotel Management Agreement and the Lease Guarantee will also remain unchanged.

## **B. LEASE EXTENSION OF THE LEASE AGREEMENT FOR ICLUB MA TAU WAI HOTEL**

On 29 December 2021, pursuant to the terms of the Lease Agreement and upon the exercise of its discretion, the Lessor served a written notice to Favour Link (as the Lessee) to extend the lease term of the iclub Ma Tau Wai Hotel for a further term, commencing from 4 September 2022 and expiring on 31 December 2027 (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 Lease Agreement.

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

Lessor:	Lessor (Land Crown International Limited)
Lessee:	Favour Link
Initial Lease Term:	Commencing from 4 September 2017 (date of the Lease Agreement) to 3 September 2022 (both days inclusive).
Extended Lease Term:	Further term commencing from 4 September 2022 and expiring on 31 December 2027 (both days inclusive).

Rental for the periods from 4 September 2017 to 3 September 2022:	An annual aggregate pre-determined fixed rents of HK\$54.4 million, HK\$57.8 million, HK\$61.2 million, HK\$64.6 million and HK\$68.0 million for the initial five years of the lease term, respectively.
Rental for Extended Lease Term (from 4 September 2022 to 31 December 2027):	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 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 Lessor has the right to terminate the Lease Agreement at any time during the term of the Lease Agreement by giving six months' prior written notice to Favour Link but without compensation, interest or costs paid by the Lessor to Favour Link and Favour Link will not have any claim whatsoever against the Lessor for such early termination.</p> <p>The Lessor also has the right to terminate the 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 Lease Agreement or the Hotel Management Agreement.</p>

Pursuant to the Lease Guarantee, during the Extended Lease Term, Regal will continue to guarantee: (a) Favour Link's obligations to pay to the Lessor and the Trustee, on demand by the Lessor or the Trustee (acting on the recommendation 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 Lessor under the Lease Agreement; and (b) the due observance and performance of all terms, conditions, covenants, agreements and obligations contained in the Lease Agreement, and on the part of Favour Link to be observed and performed.

For the six months ended 30 June 2021, the rental receipts derived from the leasing of the iclub Ma Tau Wai Hotel was HK\$32.3 million, representing 10.95% of the total rental and hotel income of HK\$295.1 million of Regal REIT. The market value of HK\$1,220 million of the iclub Ma Tau Wai Hotel represented approximately 5.47% of the total gross assets of HK\$22,305.3 million of Regal REIT as at 30 June 2021.

#### **D. REASONS FOR THE EXTENSION OF THE TERMS OF THE LEASE AGREEMENT**

The REIT Manager is of the view that the exercise of the lease extension option to extend the term of the Lease Agreement to 31 December 2027 can ensure that Regal REIT continues to receive stable rental income from iclub Ma Tau Wai 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 Ma Tau Wai 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 Ma Tau Wai Hotel unchanged, the smooth operations of the iclub Ma Tau Wai Hotel managed by the Hotel Manager can continue to be maintained. A change in the lessee may unnecessarily disrupt the business operations of the hotel.

The Lease Agreement has been in place since the completion date of the acquisition of the hotel and Favour Link has timely met all of its obligations under the 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 hotel by an independent professional property valuer based on the updated market status, 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 term of the Lease Agreement was not extended, this lease will expire while the Hotel Management Agreement remains in subsistence. The lease extension can avoid an uplift in the hotel management fees during the Extended Lease Term which could have an 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 lease extension pursuant to the terms of the 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, Regal, Paliburg and Century City) 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), who were deemed to have interests in the lease extension) considers that the lease extension pursuant to the terms of the Lease Agreement is (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 best 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 lease extension pursuant to the terms of the Lease Agreement is fair and reasonable and in the best 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 and strategy of Regal REIT and in compliance with the REIT Code and the Trust Deed; and (ii) based on the foregoing matters, the Trustee has no objection to the REIT Manager proceeding with the lease extension pursuant to the terms of the 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 substantial 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 term of the Lease Agreement constitutes a continuing connected transaction for Regal REIT.

Independent Unitholders' approval for entering into the Lease Agreement (including the terms for the extension of the lease term for a further term commencing from 4 September 2022 to 31 December 2027) was obtained at the extraordinary general meeting of Regal REIT held on 20 July 2017 by way of an Ordinary Resolution.

Pursuant to the waiver granted by the SFC on 20 July 2017, the Lease Agreement (including the terms for the extension of the lease term for a further term commencing from 4 September 2022 to 31 December 2027) is 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 20 July 2017. The REIT Manager undertakes that it will continue to comply with the terms and conditions of the waiver.

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

### **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.

### **FAVOUR LINK, REGAL AND CENTURY CITY**

Favour Link (as the Lessee) is incorporated in Hong Kong and is a wholly-owned subsidiary of Regal.

Regal and its subsidiaries are principally engaged in hotel ownership, hotel operation and management, investment in Regal REIT, asset management of Regal REIT, property development and investment, aircraft ownership and leasing business and other investments including financial asset investments.

Century City and its subsidiaries are principally engaged in property development and investment, construction and building related business, hotel ownership, hotel operation and management, asset management, aircraft ownership and leasing business and other investments including financial asset investments. Paliburg is a listed subsidiary of Century City and Regal is also a listed subsidiary of Century City held through Paliburg. Mr. LO Yuk Sui is the chairman and the controlling shareholder of Century City held through companies controlled by him.

This announcement is made pursuant to paragraphs 10.3 and 10.5A 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;
“Century City”	means Century City 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: 355) and a connected person of Regal REIT;
“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 4 September 2022 and expiring on 31 December 2027;
“Favour Link”	means Favour Link International Limited, a wholly-owned subsidiary of Regal and the lessee in the Lease Agreement;
“Hotel Management Agreement”	means the hotel management agreement for iclub Ma Tau Wai Hotel dated 4 September 2017;
“Hotel Manager”	means Regal Hotels International Limited, a wholly-owned subsidiary of Regal;
“iclub Ma Tau Wai Hotel ”	means the hotel situated at No. 8 Ha Heung Road, Kowloon, Hong Kong;
“Independent Non-executive Directors”	means the independent non-executive directors of the REIT Manager;

“Lease Agreement”	means the lease agreement for iclub Ma Tau Wai Hotel entered into between the Lessor and Favour Link on 4 September 2017;
“Lease Guarantee”	means the lease guarantee for iclub Ma Tau Wai Hotel dated 4 September 2017;
“Lessor”	means Land Crown International Limited, a wholly-owned subsidiary of Regal REIT and the direct owner of iclub Ma Tau Wai Hotel;
“Paliburg”	means Paliburg 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: 617) and a connected person of Regal REIT;
“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;
“Trust Deed”	means the trust deed constituting Regal REIT dated 11 December 2006, as amended and restated by the first amending and restating deed dated 23 March 2021 (as the same may be further amended and supplemented 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, 29 December 2021

*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.*