# 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)

# ANNUAL REPORT 2009

Managed by

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

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# CORPORATE INFORMATION

## MANAGER OF REGAL REIT

Regal Portfolio Management Limited
(the "REIT Manager")

## DIRECTORS OF THE REIT MANAGER

***Non-Executive Directors***
Lo Yuk Sui (Chairman)
Donald Fan Tung
Jimmy Lo Chun To
Kai Ole Ringenson (redesignated on 1st March, 2010)

***Executive Directors***
Francis Chiu (appointed on 1st March, 2010)
Eric Man Wai Kong (appointed on 1st March, 2010)

***Independent Non-executive Directors***
John William Crawford, JP
Alvin Leslie Lam Kwing Wai
Abraham Shek Lai Him, SBS, JP

## AUDIT COMMITTEE OF THE REIT MANAGER

John William Crawford, JP (Chairman)
Kai Ole Ringenson (appointed on 1st March, 2010)
Alvin Leslie Lam Kwing Wai
Abraham Shek Lai Him, SBS, JP

## SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

## TRUSTEE OF REGAL REIT

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

## AUDITORS OF REGAL REIT

Ernst & Young

## PRINCIPAL VALUER

Colliers International (Hong Kong) Limited

## PRINCIPAL BANKERS

Bank of China Limited, Macau Branch
The Bank of East Asia, Limited
Calyon, Hong Kong Branch
Cathay United Bank, Hong Kong Branch
China Construction Bank Corporation, Hong Kong Branch
CITIC Ka Wah Bank Limited
Dah Sing Bank, Limited
Deutsche Bank AG, Hong Kong Branch
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Malayan Banking Berhad
Oversea-Chinese Banking Corporation Limited,
Hong Kong Branch
The Royal Bank of Scotland N.V.
Standard Chartered Bank (Hong Kong) Limited
Sumitomo Mitsui Banking Corporation
Tai Fung Bank Limited
Wing Hang 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.

## REGISTERED OFFICE OF THE REIT MANAGER

Unit No. 1504, 15th Floor,
68 Yee Wo Street,
Causeway Bay,
Hong Kong.
Tel: 2805-6336
Fax: 2577-8686
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 2009 Annual Report of Regal Real Estate Investment Trust.

For the year ended 31st December, 2009, Regal REIT achieved a consolidated net profit before distributions to Unitholders of approximately HK$626.8 million, as compared to the loss before distributions to Unitholders of approximately HK$2,150.2 million recorded for the year 2008. The profit achieved during the year under review included a gain of approximately HK$272.0 million arising from the changes in the fair values of Regal REIT's portfolio of investment properties, while for the preceding year a loss of approximately HK$3,133.7 million was incurred on such fair value changes.

Total distributable income for the year amounted to approximately HK$558.2 million, as compared to HK$501.9 million for last year. The Directors of the REIT Manager have declared a final distribution of HK$0.085 per unit of Regal REIT ("Unit") for the year ended 31st December, 2009, bringing the total distributions per Unit for 2009 to HK$0.17, which exceed the HK$0.16761 distributed for 2008. The total amount of distributions for the year, including both the interim and final distributions, will be approximately HK$532.6 million and represent a payout ratio of approximately 95.4% of the total distributable income for 2009. The net asset value (the "NAV") per Unit attributable to Unitholders amounted to HK$2.593 as at 31st December, 2009, which was comparable to the NAV of HK$2.596 as at the end of year 2008.

The worldwide travel market plummeted in early 2009 due to the aftermath of the financial tsunami that started off in late 2008. The overall situation was worsened by the H1N1 swine flu pandemic around the globe during the second quarter, which deterred many long haul travellers from visiting Hong Kong in 2009. As a result, Hong Kong's industry-wide room occupancy rate dropped to approximately 78% in 2009 from 85% in 2008. Amidst such adverse situation, the average RevPAR (Revenue per Available Room) of the five Regal Hotels in Hong Kong has likewise declined generally in line with the market.

In 2009, subsequent to the 2008 approved amount of approximately HK$85.0 million, Regal REIT committed a further amount of approximately HK$24.2 million in the capital additions projects in the five Regal Hotels so as to further increase their market competitiveness and with a view to improving efficiency of spatial utilisation and to rejuvenating the asset life cycle. In 2008 and 2009, Regal REIT expended a total amount of approximately HK$107.7 million against the total approved sum of HK$109.2 million in capital additions projects.

In October 2009, Regal REIT completed the acquisition of 75% equity interests in the companies that own major portions of the commercial building at No. 211 Johnston Road, located in the commercial district in Wan Chai, Hong Kong. Part of the building has since been converted into 50 hotel rooms for the establishment of "Regal iClub Hotel" and the building renamed as "Regal iClub Building". Since the commencement of business operations in December 2009, the Regal iClub Hotel has been well received. In view of the hotel's encouraging performance, an application was made for the conversion of the remaining 10 office floors into 49 additional guestrooms and suites and the requisite approval has recently been obtained. Regal REIT is presently formulating plans to implement this new conversion programme.

With the addition of this new Regal iClub Hotel, Regal REIT's hotel portfolio in Hong Kong now commands a total of 3,880 quality guestrooms and when the new conversion programme at the Regal iClub Hotel is completed, will boast a total of approximately 3,930 guestrooms.

The business environment of Hong Kong is anticipated to improve gradually. With China's forecast of GDP growth by 8% in 2010 and its promulgated policies to promote Chinese citizens to travel to Hong Kong, including the relaxation of multiple entry permits for Shenzhen residents and Individual Visit Scheme for major Mainland cities, and coupling with the staging of the World Expo in Shanghai this year, outlook for the Hong Kong hotel sector in 2010 is positive.

The Directors continue to be confident on the competitive strength of the five Regal Hotels and the newly added Regal iClub Hotel in Hong Kong, as well as the capability of Regal REIT to grow the long term value of its investment portfolio with dedication under appropriate investment strategies.

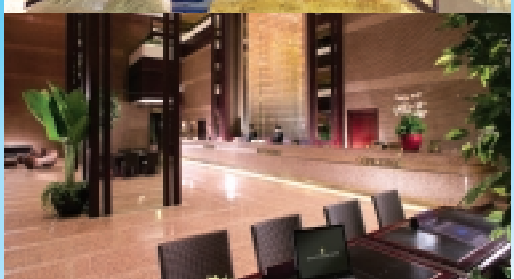
Taking this opportunity, I would like to extend on behalf of the Board our thanks to Mr. Kai Ringenson, who was redesignated as a Non-executive Director on 1st March, 2010, for his past executive services as the Chief Executive Officer and Executive Director since the listing of Regal REIT in March 2007. I would also welcome Mr. Francis Chiu and Mr. Eric Man who joined the Board on 1st March, 2010 to succeed Mr. Kai Ringenson as the two Executive Directors. Finally, I would like to express my gratitude to my other fellow Directors as well as all the management and staff members for their continual support and contributions during the past year.

**Lo Yuk Sui**
*Chairman*

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

Hong Kong, 18th March, 2010

# INVESTMENT PROPERTIES PORTFOLIO



## Location of the Investment Properties in Hong Kong


1. Regal Airport Hotel
2. Regal Hongkong Hotel
3. Regal Kowloon Hotel
4. Regal Oriental Hotel
5. Regal Riverside Hotel
6. Regal iClub Building

## Key to Hotel Facility Icons

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

# REGAL AIRPORT HOTEL

9 Cheong Tat Road,

Hong Kong International Airport,

Chek Lap Kok, Hong Kong.

Tel: (852) 2286 8888

Fax: (852) 2286 8686

Email: rah.info@RegalHotel.com

Website: http://RegalHotel.com

1,171

1999

897,900 sq. ft.

774,880 sq. ft.

5

2

10,333 sq. ft.

25

1

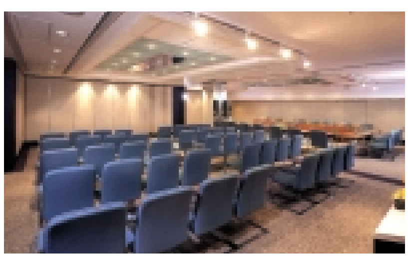
2

1

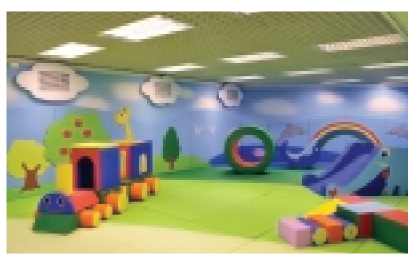
1

Duplex Suite

- The only hotel connected directly to the airport passenger terminals
- 36,000 sq. ft. state-of-the-art meeting and conference venues
- Easy access to AsiaWorld-Expo, Hong Kong Disneyland and the Big Buddha
- The Best Airport Hotel in the World by Business Traveller UK Magazine for two consecutive years (2008-2009)
- The Best Airport Hotel in Asia-Pacific by Business Traveller Asia-Pacific Magazine for nine consecutive years (2001-2009)
- The Best Airport Hotel in Asia-Pacific by TTG Asia Media Pte Ltd for five consecutive years (2005-2009)
- Five Star Golden Diamond Award - Global Best Airport Hotel by Global Hotel Forum (2009)
- Five Star Golden Diamond Award - Global Best Conference Hotel by Global Hotel Forum (2008)
- The Top 10 Convention & Exhibition Hotels of China of China Hotel Starlight Award for two consecutive years (2007-2008)
- The Best Airport Hotel in Asia by TravelWeekly (Asia) Magazine (2007)
- The Best Conference Hotel in Hong Kong by Capital CEO Magazine (2007)
- The Best International Airport Hotel of China of China Hotel Starlight Award (2007)
- One of the world's Best Airport Hotels listed on Forbestraveler.com (2007)
- OM Spa - One of the Best Airport Facilities in the World ranked by Travel+Leisure Magazine (2008)



Executive Conference Centre



Kiddie Wonderland

# REGAL HONGKONG HOTEL

■ Presidential Suite

88 Yee Wo Street,

Causeway Bay, Hong Kong.

Tel: (852) 2890 6633

Fax: (852) 2881 0777

Email: rhk.info@RegalHotel.com

Website: http://RegalHotel.com

- Located in the heart of Causeway Bay, the busiest shopping and commercial district in Hong Kong, and 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
- Regal Royale features a collection of 82 tastefully appointed guestrooms and suites, all with views over Hong Kong. With a private lounge on 31st floor and a series of luxurious privileges and amenities, Regal Royale adds up to an exclusive experience of "a hotel within a hotel"
- Five Star Golden Diamond Award – Global Best Business Hotel by Global Hotel Forum (2008)
- Regal Palace Restaurant - One-star Honour in Michelin Guide on Hong Kong & Macau for two consecutive years (2009 & 2010)

482

1993

343,900 sq. ft.

269,988 sq. ft.

3

1

2,560 sq. ft.

14

1

1

1

■ Regal Ballroom

■ The Forum

# REGAL KOWLOON HOTEL

71 Mody Road, Tsimshatsui,

Kowloon, Hong Kong.

Tel: (852) 2722 1818

Fax: (852) 2369 6950

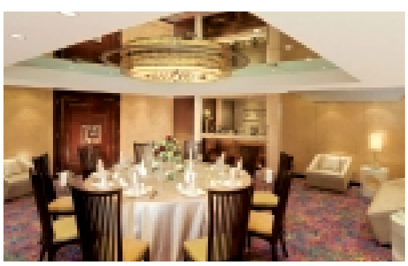
Email: rkh.info@RegalHotel.com

Website: http://RegalHotel.com

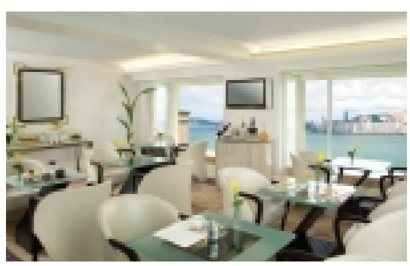
■ Regal Club Room

- 600
- 1982
- 468,400 sq. ft.
- 341,714 sq. ft.
- 4
- 2
- 3,761 sq. ft.
- 12
- 1
- 1

- Conveniently located in Tsimshatsui East, a commercial and tourist district
- Within walking distance from Tsim Sha Tsui ("TST"), TST East 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.
- Five Star Golden Diamond Award - Brand Hotel Most Adored by International Visitors by Global Hotel Forum (2008)



■ Regal Court Private Room



■ Regal Club Lounge

# REGAL ORIENTAL HOTEL

30-38 Sa Po Road, Kowloon City,

Kowloon, Hong Kong.

Tel: (852) 2718 0333

Fax: (852) 2718 4111

Email: roh.info@RegalHotel.com

Website: http://RegalHotel.com

Regal iClub Room

- Located in Kowloon City, facing the 328 hectare (810 acre) Kai Tak development site planned for a new urban centre to include a cruise terminal and related tourist facilities
- Historic landmarks such as Wong Tai Sin Temple are in the immediate vicinity
- Easy access to Mong Kok, Kowloon Bay and Kwun Tong
- Façade upgraded to give the property a new and fresh look
- Regal iClub is tailored for busy travellers appreciating trendy ambience, décor and friendly service, yet seek true value for money. Privileges include private lounge, gymnasium and business centre in a compact and cosy environment
- The Top 10 City-Nova Hotels of China of China Hotel Starlight Award (2008)

439

1982

294,200 sq. ft.

254,279 sq. ft.

3

2

3,696 sq. ft.

18

1

1

Café Neo

Regal Terrace

# REGAL RIVERSIDE HOTEL

34-36 Tai Chung Kiu Road, Shatin,

New Territories, Hong Kong.

Tel: (852) 2649 7878

Fax: (852) 2637 4748

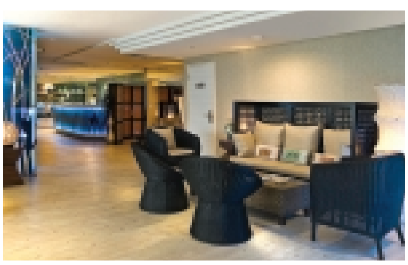
Email: rrh.info@RegalHotel.com

Website: http://RegalHotel.com

■ OM Spa Room


- 1,138
- 1986
- 743,500 sq. ft.
- 642,263 sq. ft.
- 8
- 2
- 5,104 sq. ft.
- 14
- 1
- 1
- 1

- Largest hotel in Shatin overlooking the Shing Mun River
- Easy access to Hong Kong Island, Kowloon and the Mainland border
- 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
- Regal iClub is the smart choice for business travellers. The trendy guestrooms are smart and hip with full amenities and modern facilities. In simple contemporary design, the Regal iClub Lounge provides exclusive business services and meeting room that brings a truly comfortable and convenient stay
- Hong Kong 2009 East Asian Games Headquarters Hotel and official hotel of 2008 Olympic Equestrian Events
- The Best Convention & Exhibition Hotel in China in the 9th China Hotel Forum & 2009 Annual Meeting of China Hotel Industry (2009)



■ OM Spa

■ iClub Lounge

# REGAL iCLUB BUILDING

211 Johnston Road,

Wan Chai, Hong Kong.

Tel: (852) 3669 8668

Fax: (852) 3669 8688

Email: ricwc.info@RegaliClubHotel.com

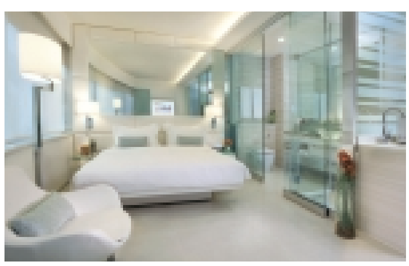
Website: http://RegaliClubHotel.com

- 50
- 2009 (hotel portion)
- 25,900 (hotel portion)
  33,700 (F&B/office portion)
- 24,902 (hotel portion)
  33,294 (F&B/office portion)
- 1
- 1

iSuite

- Regal iClub Hotel, situated on 5/F to 15/F in a 26 storey commercial building, is a contemporary boutique business 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
- 50 chic and trendy guestrooms and suites with interactive services and innovative facilities
- Cutting-edge style and comfort for tech-savvy business travellers
- The other 13 floors of the building are presently used for food and beverage/office letting

iCafé



iBusiness Room

# REPORT OF THE REIT MANAGER

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, 2009.

## LONG-TERM OBJECTIVES AND VISION OF REGAL REIT

Regal REIT's and the REIT Manager's primary objectives are to provide stable, growing distributions and long-term capital growth for the unitholders of Regal REIT (the "Unitholders") through active ownership of hotels and strategic investments in hotel and hospitality-related properties.

Regal REIT's and the REIT Manager's vision is to build up the existing portfolio of the hotel properties in Hong Kong and to become a pre-eminent owner of 4 and 5 star-rated hotels in the Greater China region as well as to reinforce Regal REIT's status as a growing attractive option to investors.

## ORGANISATION AND STRUCTURE OF REGAL REIT

Regal REIT was constituted by a trust deed dated 11th December, 2006 (as amended by first supplemental deed dated 2nd March, 2007, second supplemental deed dated 15th May, 2008 and third supplemental deed dated 8th May, 2009) (collectively, the "Trust Deed") entered into between the REIT Manager and the Trustee. Regal REIT is a collective investment scheme established in the form of a unit trust under Hong Kong laws.

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").

Regal REIT commenced business on 30th March, 2007 (the "Listing Date") when the companies owning the hotel properties comprising Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels") were acquired and the units of Regal REIT (the "Units") were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In October 2009, Regal REIT completed the acquisition of 75% equity interests in Twentyfold Investments Limited which directly holds Sonnix Limited that, in turn, owns major portions of the commercial/office building, namely, No. 211 Johnston Road, Wan Chai, Hong Kong from Paliburg Development BVI Holdings Limited, a wholly-owned subsidiary of Paliburg Holdings Limited ("PHL") (PHL together with its relevant subsidiaries, collectively, the "PHL Group") at a total consideration of approximately HK$198.0 million (the "Acquisition"). The portions owned by Sonnix Limited within the building consist of 22 entire floors, a portion of the ground floor, a flat roof on the 3rd floor and the upper roof, out of a total of 26 floors in the building, together with the eastern and western elevations of the external walls and the architectural feature at the roof top of the building. Part of the building has since been converted into 50 hotel rooms for the establishment of "Regal iClub Hotel" and a restaurant named as "iCafé", and the building renamed as "Regal iClub Building".

Pursuant to the terms of the Acquisition, Regal REIT has, at its own discretion, the option to purchase the remaining 25% of the equity interests in Twentyfold Investments Limited based on a consideration equal to 25% of its adjusted net asset value (subject to certain agreed adjustments).

As at 31st December, 2009, the portfolio of investment properties of Regal REIT comprised of the Initial Hotels and Regal iClub Building.

### The REIT Manager, The RHIHL Lessee, The PHL 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 Initial Hotels or Regal iClub Building directly.

The Initial Hotels were leased to Favour Link International Limited (the "RHIHL Lessee"), a wholly-owned subsidiary of Regal Hotels International Holdings Limited (the "RHIHL") until 31st December, 2015, under long-term lease agreements (the "RHIHL Lease Agreements"). The RHIHL Lessee is responsible for the day-to-day running of the hotel businesses and has to that effect engaged Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL (RHIHL together with its relevant subsidiaries, collectively, the "RHIHL Group"), as the hotel manager (the "Hotel Manager") under long-term hotel management agreements (the "RHIHL Hotel Management Agreements").

Upon completion of the acquisition of Regal iClub Building on 20th October, 2009, Regal iClub Building was leased to Real Charm Investment Limited, a wholly-owned subsidiary of PHL, as the lessee (the "PHL Lessee") for the property leasing and hotel operation business for the period from 21st October, 2009 to 31st December, 2010 under a lease agreement (the "PHL Lease Agreement"). The PHL Lessee has also appointed the Hotel Manager for the operation and management of Regal iClub Hotel under a hotel management agreement (the "PHL Hotel Management Agreement") until 31st December, 2010.

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 trustee for collective investment schemes authorised under the SFO pursuant to the REIT Code. 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 regulatory requirements.

## RENTAL STRUCTURE

### Initial Hotels Rental Structure and Market Rental Package

Rental payments in respect of the Initial Hotels received by Regal REIT consist of three main elements: (i) Base Rent; (ii) Variable Rent; and (iii) Furniture, Fixtures and Equipment Reserve contribution.

#### *Base Rent*

Regal REIT receives rent in the form of a fixed cash Base Rent for each Initial Hotel for each of the years until 31st December, 2010. Total Base Rents for the years 2009 and 2010 have been determined to be HK$750.0 million and HK$780.0 million, respectively. In addition, Regal REIT receives cash additional Base Rent (the "Additional Base Rent") for capital additions (the "Capital Additions") projects, which are proposed by the RHIHL Lessee, approved and funded by Regal REIT for Capital Additions projects intended to increase the revenue and rental payment capacity of the respective Initial Hotels. In 2009, Regal REIT received approximately HK$7.8 million in Additional Base Rents for projects completed in 2008 and 2009.

### *Variable Rent*

Regal REIT receives Variable Rent through sharing of aggregate profits from the Initial Hotels' operations after their Base Rent payments have been made by the RHIHL Lessee. The excess profits represented by the collective excess net property income (the "NPI") from the Initial Hotels' operations are allocated 60% to Regal REIT in 2009 and 50% in 2010.

From the Listing Date through 2010, RHIHL guarantees Variable Rent to be no less than HK$220.0 million in total subject to no disposals of any of the Initial Hotels during the period. From the Listing Date to 31st December, 2009, Variable Rent of HK$101.6 million was received. The remaining minimum guaranteed Variable Rent amounts to HK$118.4 million for 2010.

### *Base Rent Reallocation*

On 12th February, 2010, Regal REIT, through the Initial Hotels owning companies (the "RHIHL Lessors"), entered into supplemental agreements to adjust the amount of the annual Base Rent payable by the RHIHL Lessee for the years 2009 and 2010, respectively, for each Initial Hotel pursuant to the relevant RHIHL Lease Agreements (the "Base Rent Reallocations"), in order to better reflect the earning capacity of each of the Initial Hotels based on the 2008 year end valuation which included an updated assessment of market conditions, but without affecting (i) the aggregate annual amount of the Base Rents payable by the RHIHL Lessee; (ii) the basis for the calculation of the Variable Rent, which will remain unchanged on an aggregate annual basis; and (iii) the total guaranteed Variable Rent of HK$220.0 million payable by the RHIHL Lessee. The Base Rent Reallocations will take effect as of 1st January, 2009 and 1st January, 2010, respectively.

### *Furniture, Fixtures & Equipment Reserve Contribution*

Regal REIT is obligated under the RHIHL Lease Agreements to maintain a reserve to fund expenditures for replacements of furniture, fixtures and equipment in the Initial Hotels (the "FF&E Reserve"). To maintain this reserve, the RHIHL Lessee contributes, in the form of additional rental payments, on a monthly basis, an amount equals to 2% (up to 31st December, 2010) of total hotel revenue (i.e. the total of room revenue, food and beverage revenue and other income in the hotel operations) for the previous month to Regal REIT. For the year ended 31st December, 2009, approximately HK$24.1 million had been contributed to the reserve and approximately HK$20.8 million had been expended for the purposes intended.

### *Rent Reviews of Market Rental Package for 2011 to 2015*

A rent review by a jointly appointed independent professional property valuer (expenses to be split equally between the RHIHL Lessee and Regal REIT) will take place each of the years from 2010 to 2014 to determine the market rental package, including the amount of market rents (inclusive of the amount of Base Rent for each Initial Hotel, Variable Rent sharing percentage and the RHIHL Lessee's contribution to 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").

The independent professional property valuer, acting as an expert and not as an arbitrator, shall be appointed no later than 30th June, 2010 for the purpose of the 2011 rent review and the 2011 Market Rental Package will be determined no later than 30th September, 2010. Where the RHIHL Lessor and the RHIHL Lessee cannot agree on the choice of a valuer, the matter shall be referred to, by either the RHIHL Lessor or the RHIHL Lessee, the President (at that time) of the Hong Kong Institute of Surveyors, who shall appoint in writing an independent professional property valuer for the determination of the Market Rental Package.

### Regal iClub Building Rental Structure

Pursuant to the PHL Lease Agreement, the PHL Lessee is obligated to pay the monthly rental amount of HK$2.0 million to Regal REIT for the term commencing on 21st October, 2009 until 31st December, 2010, the expiry date of the PHL Lease Agreement.

## REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2009 are set out in the consolidated financial statements on pages 48 to 96.

### Rental Revenue Derived from Hotel Operations

A substantial portion of all of the rental revenues, represented by Base Rent, Variable Rent and FF&E Reserve contribution, are derived from the hotel operations, that is, from the hotel business 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 depend on the underlying performance of the hotel business managed by the RHIHL Lessee and the Hotel Manager.

Specifically, total hotel revenue consists of the following:

- Room revenue, which is primarily driven by hotel room occupancy rate and achieved average room rate;
- Food and beverage revenue ("F&B Revenue"), which is primarily driven by banquet business, local patrons' and hotel room guests' usage of bars and restaurants; and
- Other income, which consists of ancillary hotel revenue and other items, is mainly driven by hotel room occupancy rate which affects telephone, internet and business centre's usage, spa and health centres, parking and dry cleaning/laundry services. Other income also includes guaranteed revenue arising from corporate promotion programmes undertaken by the Hotel Manager.

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, sales and marketing department and repairs and maintenance department.

Most categories of variable expenses, such as certain labour costs in housekeeping and utility costs, fluctuate with changes in the room occupancy rate of the hotel rooms while cost of goods sold, such as food products and beverages, fluctuate with guest frequency in restaurants, bars and banquets. Thus, improvements in room revenue per available room ("RevPAR"), segmental mix and total hotel revenue attributable to an increase in average room rate have a significant impact on improving operating margins.

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

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

## Review of Hotel Industry Conditions

Following the fourth quarter of 2008, the tourism travel and hotel businesses worldwide were badly affected by the after-effects of the financial tsunami and in the wake of the collapse of major financial institutions in U.S.A. and Europe, and the tourism market in Hong Kong in 2009 had likewise been adversely affected.

Hong Kong's hotel market encountered weak demand in the first half of 2009, which was exacerbated by the reluctance to travel from Mainland China and other markets as a result of the H1N1 pandemic. At the lowest point, industry-wide room occupancy had dropped to about 61% and average room rate decreased by approximately 20% compared on a year-on-year basis with 2008[(1)]. When the scare of H1N1 abated and the various economic stimulus programmes initiated by major countries, and particularly on the Mainland, began to take effect, global tourists travel regained some positive momentum. Visitor arrivals to Hong Kong increased and hotel demand strengthened from the third quarter of 2009.

Showing remarkable resilience and in spite of a drop in demand from key overseas markets, visitor arrivals to Hong Kong increased slightly by 0.3%[(2)] for the whole year, boosted mainly by 16.6%[(3)] growth in the arrival numbers from the Mainland in the fourth quarter, effecting a robust 6.5%[(2)] growth from Mainland China for the year.

### Growth in Visitor Arrivals to Hong Kong, October to December 2009 and January to December 2009 versus Same Period in 2008[(3)]

| Market/Regions | q-o-q<br>4th Quarter<br>% Growth | y-o-y<br>Full Year<br>% Growth |
|---|---|---|
| The Americas | 0.7 | (6.9) |
| Europe, Africa and the Middle East | 1.2 | (6.0) |
| Australia, New Zealand and South Pacific | (1.1) | (7.2) |
| North Asia | (10.1) | (18.2) |
| South and Southeast Asia | 1.7 | (1.7) |
| Taiwan | (3.7) | (10.3) |
| Macao Special Administrative Region | 11.7 | (3.7) |
| Mainland China | 16.6 | 6.5 |
| Market Total | 9.0 | 0.3 |

*(1) Source: "Hotel Room Occupancy Report - as at Jun 2008" and "Hotel Room Occupancy Report - as at Jun 2009", Research, Hong Kong Tourism Board; the REIT Manager.*

*(2) Source: "Visitor Arrival Statistics – Dec 2009", Research, Hong Kong Tourism Board.*

*(3) Source: "Visitor Arrival Statistics – Oct to Dec 2008 & 2009", Research, Hong Kong Tourism Board; the REIT Manager.*

In 2009, the weakening demand in global travel, coupled with a surge in supply of 4,823 hotel rooms inventory or an increase of 8.8%[(4)] supply into Hong Kong's hotel market, has led to the city-wide full-year hotel room occupancy rate decreased by 7 percentage points to 78%. The average room rate decreased by 16.3% to HK$1,023 for the full year 2009 and the industry-wide 2009 RevPAR recorded a significant drop by 23.2% to HK$798[(5)].

**Hong Kong Hotel Market Performance[(5)]**

| | Room Occupancy Rate | | Average Room Rate | | RevPAR | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| **Hotel Category[(6)]** | **%** | % | **HK$** | HK$ | **HK$** | HK$ |
| High Tariff A | **72** | 79 | **1,808** | 2,106 | **1,302** | 1,664 |
| High Tariff B | **81** | 87 | **779** | 974 | **631** | 847 |
| Medium Tariff | **80** | 86 | **481** | 586 | **385** | 504 |
| All Hotels | **78** | 85 | **1,023** | 1,222 | **798** | 1,039 |

## Performance of Regal REIT's Portfolio of Hotels

In 2009, the weakened tourist arrival pattern, the increase in hotel room supply and the effects from the H1N1 pandemic, all hit the Hong Kong hotel market severely. As compared with 2008, the 2009 room occupancy rate in the Initial Hotels decreased by 7.5 percentage points (calculated based on increased hotel room capacity, adding 280 rooms to Regal Riverside Hotel in June 2009 and 8 rooms in Regal Hongkong Hotel in August 2009). The drop in room occupancy at Regal Airport Hotel was caused by a reduction in demand from long haul overseas tourists and in the case of Regal Riverside Hotel, it added 280 new hotel rooms and raised its room inventory by approximately 33%. In December 2009, part of the available rooms in Regal Hongkong Hotel were temporarily taken out of the room inventory for a Capital Additions project that may last until June 2010.

In the fourth quarter of 2009, Regal Oriental Hotel and Regal Riverside Hotel, in particular, were able to benefit from the strong rebound in visitor arrivals from Mainland China. To offset the effects of the weakened hotel demand in Hong Kong, a volume strategy was implemented in the Initial Hotels and across all market segments. As expected, and although successful, this strategy negatively impacted the average room rates on Regal Hongkong Hotel and Regal Kowloon Hotel, both cater to higher price segments.

Despite all these factors, the Initial Hotels continued to receive good recognition awards from various trade partners. Regal Airport Hotel was recognised as "Best Airport Hotel in the World" by Business Traveller UK Magazine for two consecutive years since 2008 and "Best Airport Hotel in Asia-Pacific" awarded by Business Traveller Asia-Pacific Magazine and TTG Asia Media Pte Ltd for several consecutive years since 2001 and 2005, respectively, as well as "Five Star Golden Diamond Award - Global Best Airport Hotel by Global Hotel Forum in 2009" (refer to P.7 for all the awards of Regal Airport Hotel). Regal Palace, the Chinese restaurant in Regal Hongkong Hotel has been endorsed with the one-star Honour in the Michelin Guide on Hong Kong & Macau for two consecutive years since 2009 edition. Regal Riverside Hotel was also awarded "Best Convention & Exhibition Hotel in China" in the 9th China Hotel Forum & 2009 Annual Meeting of China Hotel Industry.

*(4) Hotel rooms in Hong Kong increased from 54,804 in 2008 to 59,627 in 2009; a net increase of 4,823 rooms which is equivalent to an increase of 8.8%. Source: "Hotel Supply Situation – as at Dec 2009", Research, Hong Kong Tourism Board; the REIT Manager.*

*(5) Source: "Hotel Room Occupancy Report – Dec 2008" and "Hotel Room Occupancy Report - Dec 2009", Research, Hong Kong Tourism Board; the REIT Manager.*

*(6) Source: By Hong Kong Tourism Board classified categories of hotel for High Tariff A, High Tariff B and Medium Tariff hotels (approximately equivalent to hotels positioned in the "upper-upscale" to "deluxe", "mid-scale" to "upscale" and "economy" to "mid-scale" segments of the market).*

## Total Hotel Revenue, Gross Operating Profit and Net Property Income

**For the Initial Hotels from 1st January, 2009 to 31st December, 2009 vs. Same Period Last Year**

| | Initial Hotels Combined | | |
|---|---|---|---|
| **Operating Results** | **1st January, 2009 to 31st December, 2009 (HK$'million)** | **1st January, 2008 to 31st December, 2008 (HK$'million)** | **Variance (%)** |
| Room revenue | 761.9 | 961.1 | (20.7) |
| F&B revenue | 402.0 | 441.1 | (8.9) |
| Other income | 41.8 | 48.4 | (13.6) |
| Total hotel revenue | 1,205.7 | 1,450.6 | (16.9) |
| Operating expenses | (680.3) | (728.3) | (6.6) |
| Gross operating profit | 525.4 | 722.3 | (27.3) |
| Other expenses | (44.1) | (48.6) | (9.3) |
| Net rental income | 23.2 | 26.8 | (13.4) |
| Net property income | 504.5 | 700.5 | (28.0) |
| **Statistics** | | | |
| Average room rate | HK$761.96 | HK$907.78 | (16.1%) |
| Occupancy rate | 74.2% | 81.7% | (9.2%) |
| RevPAR | HK$565.73 | HK$741.32 | (23.7%) |
| Total available room nights | 1,346,838 | 1,296,372 | 3.9% |
| Occupied room nights | 999,979 | 1,058,657 | (5.5%) |

Frequency of repeated patronage in restaurants and banquet halls depends on the trends of Hong Kong's economy and the sophisticated dining culture and behaviour among the local clienteles. Likewise to the lodging business, food and beverage business was affected by the negative sentiment in the first half of the year and the H1N1 scare. As the economy in Hong Kong improved in the second half of the year and aided by the newly renovated up-market Chinese restaurant - the Regal Court in Regal Kowloon Hotel, food and beverage sales bounced back, showing positive sign or growth in 4 out of the Initial Hotels for the fourth quarter and thereby limiting the overall negative growth on a full-year basis to 8.9%.

Operating expenses decreased by 6.6% due to lower revenues and proactive cost saving measures. However, the scope for cost savings was limited to some variable costs so as not to affect service levels or alter the service offerings.

The resultant gross operating profit ("GOP") decreased by approximately HK$196.9 million and the GOP margin by 6.2 percentage points to 43.6%.

## Performance of Regal REIT

### *Gross Rental Revenue and Net Rental Income*

An analysis of the gross rental revenue and net rental income for the year ended 31st December, 2009 compared to the prior year is set out below:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **HK$'million** | **%** | HK$'million | % |
| Base Rent | | | | |
| Cash Base Rent | **750.0** | **98.2%** | 700.0 | 91.9% |
| Cash Additional Base Rent | **7.8** | **1.0%** | 1.9 | 0.2% |
| Difference in accounting Base Rent and actual contractual cash Base Rent | **(30.6)** | **(4.0%)** | 21.3 | 2.8% |
| Rent – Regal iClub Building | **4.7** | **0.6%** | — | — |
| Other rental-related income | | | | |
| FF&E Reserve contribution | **24.1** | **3.2%** | 29.0 | 3.8% |
| Other | **7.4** | **1.0%** | 9.8 | 1.3% |
| Gross rental revenue | **763.4** | **100.0%** | 762.0 | 100.0% |
| Property operating expenses | **(9.4)** | **(1.2%)** | (12.0) | (1.6%) |
| Net rental income | **754.0** | **98.8%** | 750.0 | 98.4% |

During the year, net rental income represented approximately 98.8% of gross rental revenue, after the deduction of property operating expenses. The property management of Regal REIT is handled by the Hotel Manager under the RHIHL Hotel Management Agreements with respect to the Initial Hotels and by the PHL Lessee under the PHL Lease Agreement for the Regal iClub Building. Accordingly, the related expenses are borne by the RHIHL Lessee with respect to the Initial Hotels and by the PHL Lessee for the Regal iClub Building, as opposed to being absorbed by Regal REIT directly.

### *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 (the "Offering Circular")) 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 "fair value changes on investment properties", "fair value changes of derivative financial instruments", "difference in accounting Base Rent and actual contractual cash Base Rent", "contribution to the FF&E Reserve by the Lessee", "amortisation of debt establishment costs", "REIT Manager fees paid/payable in the form of Units" and "deferred tax charge/(credit)".

Pursuant to the Trust Deed, the REIT Manager 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 a minimum amount of no less than 90% of Regal REIT's Total Distributable Income for each financial year.

### *Distribution for 2009*

The Directors of the REIT Manager have declared a final distribution of HK$0.085 per Unit for the period from 1st July, 2009 to 31st December, 2009. The interim distribution for the period from 1st January, 2009 to 30th June, 2009 was HK$0.085 per Unit thereby making total distributions per Unit for 2009 of HK$0.170[7], representing an annualised yield of 10.30% based on the Unit closing price of HK$1.65 on the last trading day of 2009. The final distribution of HK$0.085 per Unit will be payable to Unitholders on the Register of Unitholders on 10th May, 2010.

Total Distributable Income for the year ended 31st December, 2009 was approximately HK$558.2 million. The total amount of distribution for the year, including the interim distribution of approximately HK$258.3 million and the final distribution of approximately HK$274.3 million, amounted to approximately HK$532.6 million or approximately 95.4% of the Total Distributable Income for the year.

### *Closure of Register of Unitholders*

The Register of Unitholders will be closed from Thursday, 6th May, 2010 to Monday, 10th May, 2010, 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, 5th May, 2010. The relevant distribution warrants are expected to be despatched on or about 20th May, 2010.

## Valuation of Investment Properties

As at 31st December, 2009, Regal REIT's investment properties portfolio was valued at HK$14,290.0 million (including the Regal iClub Building acquired in October 2009), as compared with the valuation as at 31st December, 2008 of HK$13,490.0 million (including the value of asset enhancement programme at Regal Riverside Hotel completed on 26th June, 2009).

The valuation of the portfolio of investment properties as at 31st December, 2009 was conducted by Colliers International (Hong Kong) Limited ("Colliers"). Colliers is the new principal valuer of Regal REIT appointed by the Trustee to succeed CB Richard Ellis Limited on its retirement pursuant to the provisions of the REIT Code.

Colliers, an independent professional property valuer, assessed the market values of the portfolio of investment properties subject to the lease agreements and the hotel management agreements and in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)", the Listing Rules and the REIT Code. Colliers used the discounted cash flow ("DCF") method based on key assumptions such as hotel room occupancies, hotel average room rates, terminal capitalisation rates and discount rates. The direct comparison method has been used as a check on the valuation arrived at from the DCF method.

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(7) *The estimated impact from the Base Rent Reallocations on the total distributions per Unit is approximately HK$0.002 per Unit or approximately 1.2% of the total distributions per Unit for 2009.*

## FF&E Reserve Contribution

For the year ended 31st December, 2009, approximately HK$24.1 million had been contributed to the FF&E Reserve representing 2% of total hotel revenue. Approximately HK$20.8 million had been expended in 2009 on replacing furniture, fixtures and equipment in the Initial Hotels.

## Asset Enhancement Programme

Based on the terms of the sale and purchase agreements for the Initial Hotels and Regal iClub Building, Regal International (BVI) Holdings Limited and Paliburg Development BVI Holdings Limited would undertake to complete an asset enhancement programme (the "AEP") at its cost, including any cost overruns and land premiums. The AEP would include the extension of the room inventory in four of the Initial Hotels by a total of 468 rooms, adding a new swimming pool in Regal Hongkong Hotel; and converting 9 office floors in Regal iClub Building into hotel usage with a total addition of 50 rooms.

Following the completion of the second stage of the AEP at Regal Riverside Hotel on 26th June, 2009, 280 new Regal iClub rooms were added to its room inventory which increased the total available rooms from 858 to 1,138. The AEP encompassing 50 guestrooms and a restaurant in Regal iClub Building was also completed and became operational in December 2009. As at 31st December, 2009, the total inventory of rooms in the Regal REIT's portfolio surged to 3,880 in total.

## Capital Additions Projects

Regal REIT may from time to time undertake funding of Capital Additions projects with the objective to maintain or to improve the market competitiveness, the profitability of the hotel revenue centers, the spatial utilisation efficiency and the rental paying capacities of the Initial Hotels. Other Capital Additions projects may be necessary to comply with licensing requirements or to conform with legislation enactments.

In 2009, Regal REIT committed approximately HK$24.2 million in the Capital Additions projects for the Initial Hotels. The goal is to increase its market competitiveness, to proactively rejuvenate the hotel assets' life cycle in the highly demanding and sophisticated hotel operating environment. The Capital Additions projects for the Initial Hotels included the renovation of approximately 15,000 sq. ft. of dining area, the renewal of some of the engineering facilities and the conversion programmes of 9 guestrooms and suites in the Regal Royale luxurious Club Floor on 34th floor of Regal Hongkong Hotel and 51 deluxe Club Floor guestrooms located on 12th floor of Regal Kowloon Hotel.

In 2009, the investment in Capital Additions projects was distributed as follows: (i) renovating food and beverage outlets amounted to approximately HK$5.4 million (22.3%), (ii) renovation of hotel guestrooms incurred about HK$10.3 million (42.6%), and (iii) upgrading of engineering facilities represented approximately HK$8.5 million (35.1%). Out of the HK$5.4 million invested in renovation of food and beverage outlets, there were two up-market restaurants, the Regal Terrace on 2nd floor and the Café Neo on basement floor of Regal Oriental Hotel.

## Financial Strategy and Financial Review

In adopting a prudent approach, the REIT Manager would ensure that the leverage ratios would not exceed the thresholds prescribed under the REIT Code and relevant financial facilities.

The REIT Manager monitors interest rate movements in the Hong Kong Interbank Offered Rates ("HIBOR") rate on an on-going basis and makes judgements with a view to contain fluctuation risks. The REIT Manager intends to continue a conservative hedging strategy to minimise the impact of interest rate fluctuations.

At 31st December, 2009, Regal REIT had loan facilities aggregating HK$4,711.0 million comprised of a term loan of HK$4,500.0 million secured by the Initial Hotels and a loan facility of HK$211.0 million secured by the Regal iClub Building.

The term loan facility of HK$4,500.0 million secured by the Initial Hotels bears interest at a floating rate of 60 basis points above three-month HIBOR. In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries, entered into interest rate hedging arrangements for an aggregate notional principal amount of HK$4,350.0 million. Under such arrangements, the interest rates effectively borne by Regal REIT with regard to HK$4,350.0 million of the term loan are subject to a cap of 7.15% and a floor of 3.80% per annum to 18th January, 2012. The HK$150.0 million balance of this HK$4,500.0 million term loan is not hedged.

At 31st December, 2009, the net aggregate fair value of the interest rate hedging arrangements was reported as a non-current liability of approximately HK$213.4 million in the consolidated statement of financial position.

At 31st December, 2009, the loan-to-value ratio for this term loan was 32.6%, being the ratio of the outstanding term loan balance of HK4,500.0 million as compared to the aggregate market value of the Initial Hotels of HK$13,810.0 million, based on the independent valuation as at 31st December, 2009. This loan-to-value ratio is below the 40% allowed under the facility agreement with the lenders.

A loan agreement, secured by the Regal iClub Building, was entered into in October 2009 by a subsidiary of Regal REIT (as the borrower) for loan facilities aggregating HK$211.0 million comprised of a term loan of HK$141.0 million and a revolving credit facility of HK$70.0 million. The term loan was fully drawn down in October 2009 and is subject to eleven consecutive quarterly repayments of HK$1.5 million and a final repayment of HK$124.5 million at the end of the 12th quarter period. The revolving credit facility is for a term of 3 years. At 31st December, 2009, the outstanding balance of the term loan was HK$141.0 million and the revolving credit facility is currently not utilised.

At 31st December, 2009, the loan-to-value ratio for such HK$211.0 million loan facilities was 44.0%, being the ratio of the aggregate amount of the loan outstanding and the undrawn facility totalling HK$211.0 million as compared to the market value of the Regal iClub Building of HK$480.0 million, based on the independent valuation as at 31st December, 2009. This loan-to-value ratio is below the 65% allowed under the loan agreement with the lender.

At 31st December, 2009, the gearing ratio of Regal REIT was 31.9%, being the gross amount of the outstanding loans of HK$4,641.0 million as compared to the total gross assets of Regal REIT of approximately HK$14,563.9 million, which is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of approximately HK$68.3 million in unrestricted and HK$56.5 million in restricted cash balances and bank deposits at 31st December, 2009 and, therefore, in the opinion of the Directors of the REIT Manager, has sufficient financial resources to satisfy its short and medium term financial commitments and working capital requirements.

At 31st December, 2009, Regal REIT's investment properties, with an aggregate carrying value of HK$14,290.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

## OUTLOOK FOR THE HONG KONG'S HOTEL INDUSTRY

For the year 2010, it is expected that the hotel business environment in Hong Kong will gradually improve. The hotel market in Hong Kong has shown remarkable resilience over the years and is currently bouncing back from a disappointing 2009. The competitive position of Hong Kong as a tourism destination and commercial centre is strong and will continue to be strengthened through promulgated policies such as multiple entry permits for Shenzhen residents, the Individual Visit Scheme[8] for major Mainland cities, CEPA VI[9] and visa free entry for Russian citizens entering Hong Kong. Increased tourist business is also expected to be generated by the World Expo to be staged in Shanghai this year.

The Hong Kong Tourism Board (the "HKTB") is forecasting 31.1 million visitor arrivals for 2010, representing an increase of 5.2%, while the average length of stay per visitor remained unchanged at 3.2 nights[10]. In 2009, the Mainland Chinese visitors already accounted for approximately 61% of the total inbound arrival[11]. The numbers of visitor arrivals from 2010-2012 are expected to reach 34.6 million in 2012 according to a research conducted by the School of Hotel and Tourism Management of the Hong Kong Polytechnic University in October, 2009. The number of visitors from the Mainland China will continue to grow and as a dominant segment in the tourism market[12]. Tourists from the Mainland are expected to account for more than 60% after 2010[12]. All these factors produce positive effects on the hotel and tourism industry in Hong Kong.

Hong Kong SAR Government is also launching strategic initiatives to promote Hong Kong as a tourist destination as below :

- In the 2009-10 Budget, the Financial Secretary earmarked HK$100 million to set up the Mega Events Fund ("MEF") to assist local non-profit-making organisations to host more attractive arts, cultural and sports events over the next three years to further promote Hong Kong as the "Events Capital of Asia". As at 5th March, 2010, seven mega events have been approved and a total of HK$27.2 million will be granted from the MEF to support these events[13].
- HKTB would spend HK$62.0 million in 2010 to promote Hong Kong to the mainlanders[14]. This represented an increase of 12.7% year-on-year.

The Hong Kong SAR Government began expediting investment in major infrastructure projects in 2009. These include the Hong Kong-Zhuhai-Macao Bridge, the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Liantang/Heung Yuen Wai Boundary Control Point, all aimed at integrating Hong Kong with the Pearl River Delta economy and logistics circulation. It is anticipated that they will result in increased employment opportunities and economic growth[15].

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*(8) Individual Visit Scheme (IVS) is a liberalisation measure to allow Mainland residents to visit Hong Kong in their individual capacity since July 2003. In January 2010, IVS extends to around 270 million Mainland residents in 49 cities. The endorsement is valid for three months or one year and good for one or two visits to Hong Kong, and not more than seven days on each visit. Source: Tourism Commission, Commerce and Economic Development Bureau, Hong Kong SAR, updated on 18th January, 2010.*

*(9) Since 2003, The Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the Mainland covers trades in services as well as other cooperative measures. In 2009, Supplement VI to CEPA contains a total of 29 liberalisation measures. With regards to tourism sector, the Mainland travel agents who were authorised to develop multi-destination tour products to Taiwan for Mainland residents could arrange visitors to enter and remain in Hong Kong in transit. Source: Trade and Industry Department, Hong Kong SAR, 9th May, 2009.*

*(10) Source: "2010 Hong Kong Overview", Presentation by HKTB Executive Director, Anthony Lau, 5th March, 2010.*

*(11) Source: "Visitor Arrival Statistics – Dec 2009", Research, Hong Kong Tourism Board.*

*(12) Source: "Forecasting the Demand for Hong Kong Tourism in the Time of Economic Crisis: The View of Experts" October, 2009, School of Hotel & Tourism Management, The Hong Kong Polytechnic University.*

*(13) Source: Tourism Commission press releases dated 12th June, 2009, 22nd October, 2009 and 5th March, 2010. The approved seven mega events include 1) Swire "Symphony Under the Stars"; 2) Hong Kong Tennis Classic 2010 "World Team Challenge"; 3) Mui Wo Lantern Festival; 4) 2010 International a cappella Festival; 5) Hong Kong Musical Festival; 6) Louis Vuitton Hong Kong Trophy; and 7) Hope and Glory.*

*(14) Source: An article "HK Arrivals up 18 pc to Record High", by Dennis Eng, South China Morning Post, 2nd March, 2010.*

*(15) 2010-2011 Budget Speech.*

The GDP of China is forecasted to have a 8% growth year-on-year in 2010 according to the news from Xinhua News Agency on 5th March, 2010[16]. With China's RMB 4 trillion stimulus plan initiated in early 2009[17], economic growth in China has been able to sustain and, indeed, create a positive impact on the demand for travel and lodging for transient visitors to Hong Kong for both leisure travel and business engagement purposes. All these positive effects are estimated to partially offset the increase in the overall room supply in Hong Kong and the future outlook of the hotel market in Hong Kong remains positive.

The growth in the middle class in Mainland China, the relaxation of travel restrictions and Macao's gaming and tourism attractions should also contribute to resilience in the tourism market and room demand in Hong Kong in the coming years.

## 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:

- 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.
- External Growth Strategy: The core strategy for growing the portfolio of hotels is to selectively acquire additional hotel 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 Greater China with a focus on Hong Kong, Macao and Mainland China and on markets and locations in urban centres and popular resort areas with growth potential;
- 4 and 5 star-rated (PRC Star rating system) full-service hotels;
- Larger hotels with more than approximately 200 rooms;
- 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.

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*(16) Source: According to The Opening Meeting of the Third Session of the 11th National People's Congress by Chinese Premier of State Council, Wen Jiabao, Xinhua News Agency, 5th March, 2010.*

*(17) Source : RMB 4 trillion Stimulus Package announced by The State Council, Xinhua News Agency, 9th November, 2008.*

While Regal REIT will focus on hotels and hospitality-related properties in Greater China, its investment scope 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 represent less than 10% of Regal REIT's total net asset value at the time of acquisition.

Given the weak hotel demand in the region and overbuilding in key cities in Mainland China in recent years, the REIT Manager has taken a cautious and prudent attitude with regard to expansion in the near term. However, 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

Saved as disclosed herein in relation to the completion of the acquisition of Regal iClub Building from PHL on 20th October, 2009, Regal REIT did not enter into any other real estate acquisition or disposal transactions during the year.

## REPURCHASE, SALE OR REDEMPTION OF UNITS

There were no repurchases, 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 AND CONTRACTORS

Save for the RHIHL Lessee, the PHL Lessee and the Hotel Manager which had been delegated to take the responsibility for the operation and management of the Initial Hotels and Regal iClub Building, respectively, pursuant to the RHIHL Lease Agreements, the PHL Lease Agreement, the RHIHL Hotel Management Agreements and the PHL Hotel Management Agreement, respectively, and as disclosed in this Annual Report, Regal REIT did not engage any real estate agents or contractors to conduct any services or works for the Initial Hotels and/or Regal iClub Building during the year.

On behalf of the Board
**Regal Portfolio Management Limited**
(as the REIT Manager of Regal REIT)

**Francis Chiu and Eric Man Wai Kong**
*Executive Directors*

Hong Kong, 18th March, 2010

# DIRECTOR AND EXECUTIVE OFFICER PROFILES

## DIRECTOR PROFILES

**Mr. Lo Yuk Sui,** aged 65, 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 39 years of experience in the real estate and hospitality sectors. He is the chairman and chief executive officer of Regal Hotels International Holdings Limited ("RHIHL") of which Regal REIT is a listed associate. He has held the position as the chairman 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 the chairman and chief executive officer of Century City International Holdings Limited ("CCIHL") and Paliburg Holdings Limited ("PHL"), of which RHIHL is a listed associate. He is a qualified architect.

**Mr. Francis Chiu,** aged 47, Executive Director and Responsible Officer – Mr. Chiu was appointed as an Executive Director and a Responsible Officer of the REIT Manager with effect from 1st March, 2010. He is responsible for, among other things, overseeing and managing the asset management activities of Regal REIT. He is also responsible, jointly with Mr. Eric Man, for making the disclosures and communications of Regal REIT to investors. He has over 21 years of commercial experience in real estate, specialized commercial assets, facilities services and related businesses. Prior to joining the REIT Manager, he held senior positions, including general manager, executive director and regional director with various hotels and companies in Hong Kong and China, focusing on corporate management, joint-venture operations, international marketing, commercial asset, hotel real estate development projects and special investment projects. Mr. Chiu joined the New World Group, a Hong Kong listed property developer, in 1987 and NWS Holdings Limited, New World Group's infrastructure and services conglomerate in 2000, where he worked until 2010.

Mr. Chiu is a graduate of the ESSEC Business School Paris, France and Cornell University, New York, USA, with a joint Master's degree majored in International Hospitality Management and minored in Real Estate and Finance. Mr. Chiu also holds a MBA and a BA in Business and Finance. He is a U.S. Certified Hotel Administrator, a Fellow of Britain's Institute of Hospitality, a Member of the Royal Institution of Chartered Surveyors, a Member of The Chartered Institute of Housing, a Fellow of The Chartered Institute of Management Accountants, a Fellow of The Chartered Institute of Marketing, a Fellow of The Hong Kong Institute of Directors, a Member of Hong Kong Institute of Real Estate Administrators, a Member of Urban Land Institute and a Registered Professional Housing Manager in Hong Kong.

**Mr. Eric Man Wai Kong,** aged 42, Executive Director and Responsible Officer – Mr. Man joined the REIT Manager as the Director of Finance and Investor Relations of the REIT Manager and a Responsible Officer in 2008. He was appointed as an Executive Director with effect from 1st March, 2010. Mr. Man is responsible for, among other things, overseeing and managing the finance and accounting functions of Regal REIT. He is also responsible, jointly with Mr. Francis Chiu, for making the disclosures and communications of Regal REIT to investors. Mr. Man holds a Master of Science degree in Finance and a Bachelor of Social Sciences degree. He is also a Fellow of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants. Mr. Man has over 19 years of finance and accounting experience. Prior to joining the REIT Manager, he held various management positions in different major Hong Kong listed companies, including Sun Hung Kai Properties Limited and MTR Corporation Limited.

**Mr. John William Crawford, JP,** aged 67, 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 being 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 on the board of two Hong Kong listed companies, namely e-Kong Group Limited and Titan Petrochemicals Group Limited, where he also chairs the audit committees. He is also an independent non-executive director of Elixir Gaming Technologies Inc. which is listed on the American Stock Exchange.

**Mr. Donald Fan Tung,** aged 53, Non-executive Director – Mr. Fan was appointed as a Non-executive Director of the REIT Manager in 2006. He is 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 of PHL and in charge of all hotel project work in RHIHL. He is a qualified architect.

**Mr. Alvin Leslie Lam Kwing Wai,** aged 65, 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 managing 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 36, Non-executive Director – Mr. Lo was appointed as a Non-executive Director of the REIT Manager in 2006. He is an executive director of CCIHL, PHL and RHIHL. He graduated from Cornell University, New York, U.S.A. with a Bachelor of Architecture degree. In addition to his involvement in the design of RHIHL Group property and hotel projects, he also undertakes responsibilities in the business development functions of CCIHL, PHL and RHIHL. He is the son of Mr. Lo Yuk Sui.

**Mr. Kai Ole Ringenson,** aged 60, Non-executive Director – Mr. Ringenson was redesignated as a Non-executive Director of the REIT Manager with effect from 1st March, 2010. He was the Chief Executive Officer and Executive Director of the REIT Manager from 2006 and a Responsible Officer of the REIT Manager from 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, SBS, JP,** aged 64, 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 and vice chairman of the Independent Police Complaints Council. He is also a member of the Council of The Hong Kong University of Science & Technology, a member of the Court of The University of Hong Kong and a director of The Hong Kong Mortgage Corporation Limited. He is an independent non-executive director and a member of the audit committee of Chuang's Consortium International Limited, Country Garden Holdings Company Limited, ITC Corporation Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, MTR Corporation Limited, NWS Holdings Limited, PHL (of which RHIHL is a listed associate), Titan Petrochemicals Group Limited 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 and Hsin Chong Construction Group 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 25 years of engineering experience. He had been involved in several large projects during his 25 year working career, 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. Cindy Yuen Wai Sau,** Internal Auditor – Ms. Yuen is responsible for, among other things, reviewing the accuracy and completeness of records of all operations and transactions of Regal REIT and ensuring the internal control systems function properly. She has over 18 years of professional accounting experience, gained in Hong Kong and Canada. She is a member of the Canadian Certified General Accountants Association of Hong Kong (CGA) and a member of the American Institution of Certified Public Accountants (AICPA). Prior to joining the REIT Manager, Ms. Yuen worked for a Hong Kong headquartered trading company as the Finance and Administration Manager of its PRC operations, responsible for internal auditing, financial and management accounting, taxation and internal procedures compliance.

# CORPORATE GOVERNANCE REPORT

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 the trust deed (the "Trust Deed").

The REIT Manager is licensed by the SFC under the SFO to conduct the regulated activity of asset management. During the year under review, Mr. Kai Ole Ringenson, Mr. Eric Man Wai Kong and Mr. Yip Yat Wa were duly appointed as the Responsible Officers of the REIT Manager. On 1st March, 2010, Mr. Kai Ole Ringenson ceased to be a Responsible Officer and Mr. Francis Chiu was appointed as a Responsible Officer of the REIT Manager to replace him.

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 aim to create a Board structure that is both effective and balanced, the size of the Board has been 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, fund and asset management and/or in the property industry.

The nine member Board presently comprises two Executive Directors, four Non-executive Directors and three Independent Non-executive Directors.

The Board currently comprises the following members:

*Chairman and Non-executive Director*
Lo Yuk Sui

*Executive Directors*
Francis Chiu*
Eric Man Wai Kong*

*Non-executive Directors*
Donald Fan Tung
Jimmy Lo Chun To
Kai Ole Ringenson#*

*Independent Non-executive Directors*
John William Crawford, JP
Alvin Leslie Lam Kwing Wai
Abraham Shek Lai Him, SBS, JP

# Resigned as the Chief Executive Officer and Executive Director on 1st March, 2010.
* Appointed on 1st March, 2010.

Mr. Kai Ole Ringenson resigned as the Chief Executive Officer and Executive Director of the REIT Manager and was redesignated as a Non-executive Director of the REIT Manager on 1st March, 2010. On the same date, Mr. Francis Chiu and Mr. Eric Man Wai Kong, both Responsible Officers of the REIT Manager, were appointed as Executive Directors of the REIT Manager.

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.

Directors may be nominated for appointment and/or removed by the Board following recommendations made by the Audit Committee. In considering persons for appointment as Directors, the Board will have regard to 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.

## Board Meetings

The Board conducts regular meetings 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 order to enable them to discharge their duties.

Four full Board meetings of the REIT Manager were held during the year ended 31st December, 2009 and the attendance rates of the individual Board members were as follows:

| **Name of Directors** | **Attendance/ No. of Meetings** |
|---|---|
| *Chairman and Non-executive Director* | |
| Lo Yuk Sui | 4/4 |
| *Chief Executive Officer and Executive Director* | |
| Kai Ole Ringenson (redesignated as a Non-executive Director on 1st March, 2010) | 4/4 |
| *Non-executive Directors* | |
| Donald Fan Tung | 4/4 |
| Jimmy Lo Chun To | 3/4 |
| *Independent Non-executive Directors* | |
| John William Crawford, JP | 4/4 |
| Alvin Leslie Lam Kwing Wai | 4/4 |
| Abraham Shek Lai Him, SBS, JP | 4/4 |

## AUDIT COMMITTEE

The REIT Manager has established an audit committee (the "Audit Committee") which is appointed by the Board and currently comprises the following Directors:

*Independent Non-executive Directors*
John William Crawford, JP (Chairman of the Committee)
Alvin Leslie Lam Kwing Wai
Abraham Shek Lai Him, SBS, JP

*Non-executive Director*
Kai Ole Ringenson (appointed on 1st March, 2010)

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 risk management; (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, four formal Audit Committee meetings of the REIT Manager were held during the year ended 31st December, 2009 and the attendance rates of the individual Audit Committee members were as follows:

| **Name of Audit Committee Members** | **Attendance/ No. of Meetings** |
|---|---|
| John William Crawford, JP (Chairman of the Committee) | 4/4 |
| Alvin Leslie Lam Kwing Wai | 4/4 |
| Abraham Shek Lai Him, SBS, JP | 4/4 |

## DISCLOSURE COMMITTEE

The disclosure committee of the REIT Manager (the "Disclosure Committee") is responsible for, among other matters, reviewing all areas relating to the regular, urgent and forward looking disclosure of information to Unitholders and public announcements.

The Disclosure Committee currently comprises the following Directors:

*Independent Non-executive Director*
John William Crawford, JP (appointed as Chairman of the Committee on 1st March, 2010)

*Executive Directors*
Francis Chiu (appointed on 1st March, 2010)
Eric Man Wai Kong (appointed on 1st March, 2010)

*Non-executive Directors*
Donald Fan Tung
Kai Ole Ringenson

Mr. Kai Ole Ringenson ceased to be the Chairman of the Disclosure Committee with effect from 1st March, 2010 and Mr. John William Crawford was appointed as his replacement on the same day. Mr. Francis Chiu and Mr. Eric Man Wai Kong were appointed as new members of the Disclosure Committee with effect from 1st March, 2010.

Four Disclosure Committee meetings of the REIT Manager were held during the year ended 31st December, 2009 and the attendance rates of the individual Committee members of the REIT Manager were as follows:

| **Name of Disclosure Committee Members** | **Attendance/ No. of Meetings** |
|---|---|
| Kai Ole Ringenson (then Chairman of the Committee) | 4/4 |
| Donald Fan Tung | 4/4 |
| John William Crawford, JP | 4/4 |

## REPORTING AND TRANSPARENCY

Regal REIT prepares its financial statements in accordance with Hong Kong Financial Reporting Standards based on a financial year end of 31st December with a six months interim period ended each 30th June. In accordance with the REIT Code, the annual report and financial statements for Regal REIT are to be published and despatched to Unitholders no later than four months following each financial year end and the interim results 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 appraised 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. Except as otherwise provided in the Trust Deed, at least 14 days' notice in writing of every meeting will be given to Unitholders where an Ordinary Resolution is proposed for consideration at such meeting, and at least 21 days' notice in writing will be given to Unitholders where a Special Resolution is proposed for consideration at such meeting, and such notices will specify the time and place of the meetings and the resolutions to be proposed. With effect from 1st January, 2009, certain amendments were made to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") that all listed issuers should arrange for the notice to shareholders to be sent in the case of annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days in the case of all other general meetings. In accordance with the Circular in respect of the Clarification on the application of various Listing Rules amendments to SFC - authorised REITs issued by the SFC on 16th March, 2009, Regal REIT has complied with this notice periods for general meetings requirement.

## 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:

(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 Base/Variable fees above the permitted limit or any change in the structure of the REIT Manager Base/Variable 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 or the REIT Manager.

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 will 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 if:

(1) the total number of new Units issued, or agreed (conditionally or unconditionally) to be issued, in that financial year, without taking into account:

  (a) any new Units issued or issuable in that financial year pursuant to any Convertible Instruments issued (whether in that or any prior financial year) pursuant to and in compliance with Clause 5.1.7 of the Trust Deed, to the extent that such new Units are covered by the aggregate number of new Units contemplated under Clause 5.1.7(i)(b) of the Trust Deed at the Relevant Date (as defined in the Trust Deed) applicable to the relevant Convertible Instruments;

  (b) such number of new Units issued or issuable pursuant to any such Convertible Instruments as a result of adjustments arising from the consolidation or sub-division or re-designation of Units;

  (c) any new Units issued in that financial year pursuant to any agreement for the issuance of Units, to the extent that such new Units were previously taken into account in the calculation made under Clause 5.1.7(i)(a) of the Trust Deed (whether in that or any prior financial year) at the Relevant Date applicable to that agreement;

  (d) any new Units issued, or agreed (conditionally or unconditionally) to be issued, otherwise than on a pro rata basis to all existing Unitholders and in respect of which the specific prior approval of Unitholders in accordance with the relevant requirements of the Trust Deed and under applicable laws and regulations (including the REIT Code) have been obtained;

  (e) any new Units issued or issuable (whether directly or pursuant to any Convertible Instruments) in that financial year pursuant to any pro rata offer made in that financial year in accordance with Clause 5.1.6 of the Trust Deed; and/or

  (f) any new Units issued or issuable in that financial year pursuant to any reinvestment of distributions made in accordance with Clause 11.10 of the Trust Deed,

AND

(2) (a) the maximum number of new Units issuable at the Initial Issue Price (as defined in the Trust Deed) pursuant to any Convertible Instruments issued, or agreed (conditionally or unconditionally) to be issued, otherwise than on a pro rata basis to all existing Unitholders and whose Relevant Date falls within that financial year; and (b) the maximum number of any other new Units which may be issuable pursuant to any such Convertible Instruments as at the Relevant Date thereof as estimated or determinable by the REIT Manager in good faith and using its best endeavours and confirmed in writing to the Trustee and the SFC, having regard to the relevant terms and conditions of such Convertible Instruments (including any additional new Units issuable under any adjustment mechanism thereunder other than adjustments arising from the consolidation or sub-division or re-designation of Units), does not increase the number of Units that were outstanding at the end of the previous financial year (or, in the case of an issue of, or an agreement (whether conditional or unconditional) to issue, Units or Convertible Instruments during the first financial year, the number of Units that were outstanding as of the listing date of Regal REIT) by more than 20% (or such other percentage of outstanding Units as may from time to time, be prescribed by the SFC).

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, Regal REIT allotted and issued 62,198,082 new Units to the REIT Manager in payment of the REIT Manager fees.

## 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").

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.

During the periods of (i) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and (ii) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results, the Directors or the REIT Manager must not deal in any Units unless the circumstances are exceptional and a written acknowledgement and approval has been obtained according to the procedures as set out in the Units Dealings Code.

The Units Dealings Code may be extended to senior executives, officers and other employees of the REIT Manager as the Board may determine.

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, 2009.

## PUBLIC FLOAT

As at 31st December, 2009, the total number of Units outstanding was 3,204,394,184.

As at 31st December, 2009, 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 issued and outstanding Units were held by independent public Unitholders.

## COMPLIANCE

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

## REVIEW OF ANNUAL REPORT

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed the annual report of Regal REIT for the year ended 31st December, 2009, in conjunction with Regal REIT's external auditors. The report of the external auditors is set out on pages 97 to 98.

# 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") have 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"); and

(iii) the Trustee and companies within the same group or otherwise "associated" with the Trustee (collectively, the "Trustee Connected Persons Group").

## RHIHL CONNECTED PERSONS GROUP

### (i) RHIHL Lease Agreements

Each of Bauhinia Hotels Limited, in relation to Regal Airport Hotel, Cityability Limited, in relation to Regal Hongkong Hotel, Gala Hotels Limited, in relation to Regal Oriental Hotel, Regal Riverside Hotel Limited, in relation to Regal Riverside Hotel and Ricobem Limited, in relation to 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 RHIHL Lease Agreements with the RHIHL Lessee in relation to the leasing of the Initial Hotels on 16th March, 2007. The RHIHL Lessee is a member of the RHIHL Connected Persons Group. The terms of the RHIHL Lease Agreements expire on 31st December, 2015.

Under the terms of each RHIHL 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 RHIHL Lease Agreements, be retained by the RHIHL Lessee.

In addition, the RHIHL Lessee guaranteed to pay a total Variable Rent, at a minimum of HK$220.0 million, for the period from 30th March, 2007 to 31st December, 2010 to the Initial Hotel – Property Companies.

On 12th February, 2010, Regal REIT, through the Initial Hotel – Property Companies, entered into supplemental agreements to adjust the amount of the annual Base Rent payable by the RHIHL Lessee for the years 2009 and 2010, respectively, for each Initial Hotel pursuant to the relevant RHIHL Lease Agreements (the "Base Rent Reallocations"), in order to better reflect the earning capacity of each of the Initial Hotels based on the 2008 year end valuation which included an updated assessment of market conditions, but without affecting (i) the aggregate annual amount of the Base Rents payable by the RHIHL Lessee; (ii) the basis for the calculation of the Variable Rent, which will remain unchanged on an aggregate annual basis; and (iii) the total guaranteed Variable Rent of HK$220.0 million payable by the RHIHL Lessee. The Base Rent Reallocations took effect as of 1st January, 2009 and 1st January, 2010, respectively.

During the year, the total contractual lease income under the RHIHL Lease Agreements amounted to approximately HK$789.4 million including cash Base Rent, cash Additional Base Rent, FF&E contributions and other rent received.

## (ii) RHIHL Hotel Management Agreements

Under the terms of each RHIHL Lease Agreement, the RHIHL Lessee has delegated the operation and management of the relevant Initial Hotel to the Hotel Manager by entering into a RHIHL Hotel 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 on 16th March, 2007.

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

Regal Asset Holdings Limited, the indirect holding company of each Initial Hotel – Property Company, is a party to the RHIHL Hotel Management Agreements. During the term of the RHIHL Lease Agreements, Regal Asset Holdings Limited shall maintain a cash reserve for furniture, fixtures and equipment for the respective Initial Hotels, to which the RHIHL Lessee will contribute on a monthly basis, from 30th March, 2007 up to 31st December, 2010, and may continue to contribute after 31st December, 2010, if required pursuant to annual rent reviews.

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

## (iii) RHIHL 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 RHIHL Lease Agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. The lease guarantees (the "RHIHL Lease Guarantees") also contain an indemnity in respect of all guaranteed liabilities.

## (iv) RHIHL Sale and Purchase Agreement

On 2nd March, 2007, the Trustee entered into a sale and purchase agreement (the "RHIHL S&P Agreement") with Regal International (BVI) Holdings Limited, (the "RHIHL Vendor"), a member of the RHIHL Connected Persons Group and RHIHL, pursuant to which the Trustee conditionally agreed to acquire, inter alia, the entire issued share capital of Regal Asset Holdings Limited, which indirectly holds the Initial Hotel – Property Companies that own the Initial Hotels, for a total consideration of approximately HK$12.5 billion.

The RHIHL S&P Agreement contained an undertaking of the RHIHL Vendor to complete the asset enhancement programmes at Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel (the "RHIHL AEP"). RHIHL has guaranteed the RHIHL Vendor's obligations under the RHIHL S&P Agreement.

## (v) RHIHL 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 "RHIHL 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.

### (vi) RHIHL AEP Agency Deed

To facilitate the carrying out of the RHIHL AEP, the relevant Initial Hotel – Property Companies, Regal Contracting Agency Limited, a member of the RHIHL Connected Persons Group (the "RHIHL AEP Agent"), and RHIHL entered into the AEP agency deed (the "RHIHL AEP Agency Deed") on 2nd March, 2007, whereby each of the Initial Hotel – Property Companies appointed the RHIHL AEP Agent to enter into the RHIHL AEP contracts on its behalf. The RHIHL AEP Agent has undertaken to indemnify the Initial Hotel – Property Companies, inter alia, from and against all costs, losses and liabilities arising from the RHIHL AEP contracts.

During the period from 11th December, 2006 (date of establishment of Regal REIT) to 31st December, 2007, the RHIHL AEP at Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and the first phase of the RHIHL AEP at Regal Riverside Hotel were completed. The second phase of the RHIHL AEP at Regal Riverside Hotel was also completed on 26th June, 2009.

### REIT Manager Fees

Regal Portfolio Management Limited, a member of the RHIHL Connected Persons Group, was appointed as the REIT Manager of Regal REIT. REIT Manager fees aggregating approximately HK$70.8 million for such services rendered during the year were settled and/or are to be settled pursuant to the provisions of the Trust Deed.

### Waiver from Strict Compliance

A waiver (the "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 RHIHL Lease Agreements, RHIHL Hotel Management Agreements, RHIHL Lease Guarantees, the RHIHL S&P Agreement, the RHIHL Deed of Trade Mark Licence and the RHIHL AEP Agency Deed described above, was granted by the SFC on 5th March, 2007 subject to the terms and conditions as set out in the Offering Circular.

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

## PHL CONNECTED PERSONS GROUP

### (i) PHL Sale and Purchase Agreement

On 10th September, 2009, Regal REIT acting through the Trustee entered into a sale and purchase agreement (the "PHL S&P Agreement") with Paliburg Development BVI Holdings Limited (the "PHL Vendor"), a member of the PHL Connected Persons Group, PHL and the REIT Manager, pursuant to which the Trustee conditionally agreed to acquire, inter alia, 75% of the total issued share capital of Twentyfold Investments Limited, which directly holds Sonnix Limited (the "Regal iClub Building – Property Company") that owns major portions of the commercial building at No. 211 Johnston Road, Wan Chai, Hong Kong, which consists of 22 entire floors, a portion of the ground floor, a flat roof on the 3rd floor and the upper roof, out of a total of 26 floors in the building, together with the eastern and western elevations of the external walls and the architectural feature at the roof top of the building ("Regal iClub Building"), for a total consideration of approximately HK$198.0 million.

Pursuant to the terms of the PHL S&P Agreement, the Trustee as the purchaser (at the direction of the REIT Manager) has, at its own discretion, the option to purchase the remaining 25% of the issued share capital of Twentyfold Investments Limited based on certain pre-agreed terms at any time during the period commencing from 1st November, 2010 and expiring on 28th February, 2011 (both dates inclusive). The aggregate amounts payable by the Trustee are subject to an overall cap of HK$98.0 million.

The acquisition was completed on 20th October, 2009. The PHL S&P Agreement contained an undertaking of the PHL Vendor to complete an asset enhancement programme in relation to the conversion of part of the Regal iClub Building into (a) 50 hotel rooms for the establishment of "Regal iClub Hotel" and (b) a restaurant named as "iCafé" (the "PHL AEP").

### (ii) PHL Lease Agreement

The Regal iClub Building – Property Company entered into a lease agreement (the "PHL Lease Agreement") in relation to Regal iClub Building with the PHL Lessee on 20th October, 2009. PHL Lessee is a member of the PHL Connected Persons Group. The term of the PHL Lease Agreement expires on 31st December, 2010.

Under the terms of the PHL Lease Agreement, PHL Lessee makes lease payments to the Regal iClub Building – Property Company and is entitled to operate and manage the leasing business at Regal iClub Building and the Regal iClub Hotel owned by the Regal iClub Building – Property Company and, accordingly, all income received from the leasing business at Regal iClub Building and the operation of Regal iClub Hotel shall, during the term of the PHL Lease Agreement, be retained by PHL Lessee.

During the year, the total contractual lease income under the PHL Lease Agreement amounted to approximately HK$4.7 million.

### (iii) PHL Lease Guarantee

Pursuant to a lease guarantee entered into on 20th October, 2009 (the "PHL Lease Guarantee"), PHL has guaranteed: (a) the PHL Lessee's obligations to pay to the Regal iClub Building – Property Company and the Trustee, on demand by the Regal iClub Building – 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 Regal iClub Building – Property Company under the PHL Lease Agreement, and (b) the due observance and performance of, all terms, conditions, covenants, agreements and obligations contained in the PHL Lease Agreement, and on the part of the PHL Lessee, to be observed and performed.

### (iv) PHL AEP Agency Deed

To facilitate the carrying out of the PHL AEP, the Regal iClub Building – Property Company, Perfect Grand Investment Limited (the "PHL AEP Agent"), a member of the PHL Connected Persons Group, and PHL entered into the PHL AEP agency deed on 20th October, 2009, whereby the Regal iClub Building – Property Company appointed the PHL AEP Agent to enter into the PHL AEP contracts on its behalf. The PHL AEP Agent has undertaken to indemnify the Regal iClub Building – Property Company from and against all costs, losses and liabilities arising from the PHL AEP contracts, and has agreed to, among others, settle all payments on behalf of the Regal iClub Building – Property Company when due or payable and to procure that project managers, consultants and other professional advisers discharge their duties under the PHL AEP contracts. The PHL AEP was completed in December 2009.

## TRUSTEE CONNECTED PERSONS GROUP

### Corporate Finance Transactions

Rich Day Investments Limited and Bauhinia Hotels Limited, which are members of the Regal REIT Group, entered into a loan facilities agreement with certain lending banks for an aggregate loan amount of HK$4.5 billion comprised of a term loan of HK$4.35 billion and a revolving credit facility of HK$150.0 million. In March 2009, the revolving credit facility of HK$150.0 million was drawn down and subsequently converted to a term loan during the year. The new term loan was aggregated with the existing term loan of HK$4.35 billion and the total term loan is HK$4.5 billion. The HK$4.5 billion term loan facility bears interest at a floating rate of three-month HIBOR plus 0.6%. In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries entered into interest rate hedging arrangements for the term loan with Deutsche Bank AG, a member of the Trustee Connected Persons Group in connection with the listing of Regal REIT for an aggregate notional principal amount of HK$2.0 billion for the period from 18th January, 2008 to 18th January, 2012.

Regal REIT, through its subsidiaries, also entered into five interest rate hedging arrangements for one year for an aggregate notional principal amount of HK$2.0 billion with Deutsche Bank AG, a member of the Trustee Connected Persons Group, effective from 18th January, 2008.

### 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.

### The 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 approximately HK$2.2 million pursuant to the Trust Deed for the year ended 31st December, 2009.

### Waiver from Strict Compliance

A wavier (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 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.

## 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 and the Trustee Connected Persons Group and they are satisfied that those transactions have been entered into:

(a) in the ordinary and usual course of business of Regal REIT;

(b) on normal commercial terms (to the extent that they 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, 2009, 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 | Notes | Total number of issued Units held | Approximate percentage of the issued Units as at 31st December, 2009 |
|---|---|---|---|
| Century City International Holdings Limited ("CCIHL") | i | 2,380,512,734 | 74.29% |
| Century City BVI Holdings Limited ("CCBVI") | i & ii | 2,380,512,734 | 74.29% |
| Paliburg Holdings Limited ("PHL") | iii & iv | 2,375,225,734 | 74.12% |
| Paliburg Development BVI Holdings Limited ("PDBVI") | iii & v | 2,375,225,734 | 74.12% |
| Regal Hotels International Holdings Limited ("RHIHL") | iii & vi | 2,375,225,734 | 74.12% |
| Regal International (BVI) Holdings Limited ("RBVI") | iii & vii | 2,375,225,734 | 74.12% |
| Complete Success Investments Limited | viii | 1,817,012,072 | 56.70% |
| Great Prestige Investments Limited | viii | 373,134,326 | 11.64% |

**Notes:**

(i) The interests in 2,380,512,734 Units held by each of CCIHL and CCBVI were the same parcel of Units which were directly held by wholly-owned subsidiaries of CCBVI and RBVI, 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 2,375,225,734 Units held by each of the Unitholders as named above were the same parcel of Units which were directly held by wholly-owned subsidiaries of RBVI.

(iv) PHL is a listed subsidiary of CCIHL, which held 58.67% shareholding interest in PHL as at 31st December, 2009, and PHL's interests in Units are deemed to be the same interests held by CCIHL.

(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) RHIHL is a listed associate of PDBVI, which held 48.66% shareholding interest in RHIHL as at 31st December, 2009, and its interests in Units are deemed to be the same interests held by PDBVI.

(vii) RBVI is a wholly-owned subsidiary of RHIHL and its interests in Units are deemed to be the same interests held by RHIHL.

(viii) 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.

Save as disclosed herein, there is no person who, as at 31st December, 2009, had an interest 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, 2009, 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 | Notes | Total number of issued Units held | Approximate percentage of the issued Units as at 31st December, 2009 |
|---|---|---|---|
| LO Yuk Sui | i | 2,380,512,734 | 74.29% |
| Regal Portfolio Management Limited | ii | 67,344,593 | 2.10% |

**Notes:**

(i) The interests in 2,380,512,734 Units were the same parcel of Units held through CCIHL in which Mr. Lo Yuk Sui held 50.25% shareholding interest as at 31st December, 2009.

(ii) Regal Portfolio Management Limited is the Manager of Regal REIT (as defined under the REIT Code).

Save as disclosed herein, as at 31st December, 2009, none of the REIT Manager, the directors and chief executive 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 as disclosed herein, the REIT Manager is not aware of any other connected persons (as defined under the REIT Code) of Regal REIT holding any Units.

# AUDITED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31st December, 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Gross rental revenue | 5 | **763,408** | 761,963 |
| Property operating expenses | | **(9,404)** | (11,924) |
| Net rental income | | **754,004** | 750,039 |
| Other income | 5 | **329** | 4,452 |
| Fair value changes on investment properties | 11 | **271,982** | (3,133,715) |
| REIT Manager fees | 6 | **(70,801)** | (66,694) |
| Trust and other expenses | 7 | **(9,981)** | (12,836) |
| Fair value changes of derivative financial instruments | | **8,951** | (23,920) |
| Net interest expense on derivative financial instruments | | **(169)** | (22,558) |
| Finance costs - excluding distributions to Unitholders | 8 | **(176,967)** | (179,709) |
| **PROFIT/(LOSS) BEFORE TAX AND DISTRIBUTIONS TO UNITHOLDERS** | | **777,348** | (2,684,941) |
| Income tax credit/(expense) | 9 | **(151,698)** | 534,770 |
| **PROFIT/(LOSS) FOR THE YEAR, BEFORE MINORITY INTEREST AND DISTRIBUTIONS TO UNITHOLDERS** | | **625,650** | (2,150,171) |
| Minority interest | | **1,154** | — |
| **PROFIT/(LOSS) FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS** | | **626,804** | (2,150,171) |
| Finance costs - distributions to Unitholders | | **(514,328)** | (511,441) |
| **PROFIT/(LOSS) FOR THE YEAR, AFTER DISTRIBUTIONS TO UNITHOLDERS** | | **112,476** | (2,661,612) |
| **EARNINGS/(LOSS) PER UNIT ATTRIBUTABLE TO UNITHOLDERS** | | | |
| Basic and diluted | 10 | **HK$0.197** | HK$(0.688) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31st December, 2009*

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| **PROFIT/(LOSS) FOR THE YEAR, BEFORE MINORITY INTEREST AND DISTRIBUTIONS TO UNITHOLDERS** | **625,650** | (2,150,171) |
| Other comprehensive income for the year: | | |
| Cash flow hedges: | | |
| Changes in fair values of cash flow hedges | **(134,407)** | (179,086) |
| Transfer from hedging reserve to income statement | **108,678** | 30,801 |
| | **(25,729)** | (148,285) |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, BEFORE MINORITY INTEREST AND DISTRIBUTIONS TO UNITHOLDERS** | **599,921** | (2,298,456) |
| Represented by: | | |
| Unitholders | **601,075** | (2,298,456) |
| Minority interest | **(1,154)** | — |
| | **599,921** | (2,298,456) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31st December, 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 11 | **14,290,000** | 13,020,000 |
| Prepaid construction costs | 12 | **—** | 430,000 |
| Construction in progress | 13 | **—** | 16,743 |
| Goodwill | 14 | **5,940** | — |
| Deferred tax assets | 22 | **64,433** | 116,455 |
| Total non-current assets | | **14,360,373** | 13,583,198 |
| **Current assets** | | | |
| Accounts receivable | 15 | **63,370** | 96,144 |
| Prepayments, deposits and other receivables | 16 | **2,496** | 10,272 |
| Tax recoverable | | **12,855** | 5,062 |
| Restricted cash | 17 | **56,454** | 47,673 |
| Cash and cash equivalents | 18 | **68,305** | 173,789 |
| Total current assets | | **203,480** | 332,940 |
| **Total assets** | | **14,563,853** | 13,916,138 |
| **Current liabilities** | | | |
| Accounts payable | 19 | **7,595** | 6,887 |
| Deposits received | | **5,855** | — |
| Other payables and accruals | | **46,448** | 57,370 |
| Interest-bearing bank borrowings | 20 | **5,413** | — |
| Tax payable | | **8,564** | — |
| Total current liabilities | | **73,875** | 64,257 |
| **Net current assets** | | **129,605** | 268,683 |
| **Total assets less current liabilities** | | **14,489,978** | 13,851,881 |

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Non-current liabilities, excluding net assets** | | | |
| Interest-bearing bank borrowings | 20 | **4,614,033** | 4,321,866 |
| Derivative financial instruments | 21 | **213,365** | 196,587 |
| Deposits received | | **540** | — |
| Due to a related company | 29(b) | **64,429** | — |
| Deferred tax liabilities | 22 | **1,272,941** | 1,176,651 |
| Total non-current liabilities | | **6,165,308** | 5,695,104 |
| **Total liabilities, excluding net assets** | | **6,239,183** | 5,759,361 |
| **Net assets** | | **8,324,670** | 8,156,777 |
| Represented by: | | | |
| Net assets attributable to Unitholders | | **8,308,731** | 8,156,777 |
| Minority interest | | **15,939** | — |
| | | **8,324,670** | 8,156,777 |
| **Number of Units in issue** | 23 | **3,204,394,184** | 3,142,196,102 |
| **Net asset value per Unit attributable to Unitholders** | 24 | **HK$2.593** | HK$2.596 |

The consolidated financial statements on pages 48 to 96 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 18th March, 2010 and were signed on its behalf by:

**ERIC MAN WAI KONG**
Executive Director

**LO YUK SUI**
Chairman

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

*For the year ended 31st December, 2009*

| | Notes | Attributable to Unitholders | | | | Minority interest HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| | | Units HK$'000 | Hedging reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | | |
| **Net assets as at 1st January, 2008** | | 8,245,211 | (24,382) | 2,694,247 | 10,915,076 | — | 10,915,076 |
| Total comprehensive loss for the year, before distributions to Unitholders | | — | (148,285) | (2,150,171) | (2,298,456) | — | (2,298,456) |
| Finance costs – distributions to Unitholders | | — | — | (511,441) | (511,441) | — | (511,441) |
| As payment of REIT Manager fees: | | | | | | | |
| Units issued | 6 | 42,450 | — | — | 42,450 | — | 42,450 |
| Units to be issued | 6 | 30,417 | — | — | 30,417 | — | 30,417 |
| Units repurchased | 23 | (21,172) | — | — | (21,172) | — | (21,172) |
| Unit repurchase expenses | 23 | (97) | — | — | (97) | — | (97) |
| **Net assets as at 31st December, 2008 and 1st January, 2009** | | 8,296,809 | (172,667) | 32,635 | 8,156,777 | — | 8,156,777 |
| Total comprehensive income/(loss) for the year, before distributions to Unitholders | | — | (25,729) | 626,804 | 601,075 | (1,154) | 599,921 |
| Finance costs – distributions to Unitholders | | — | — | (514,328) | (514,328) | — | (514,328) |
| Additions through a business combination | 25 | — | — | — | — | 17,093 | 17,093 |
| As payment of REIT Manager fees: | | | | | | | |
| Units issued | 6 | 34,772 | — | — | 34,772 | — | 34,772 |
| Units to be issued | 6 | 30,435 | — | — | 30,435 | — | 30,435 |
| **Net assets as at 31st December, 2009** | | 8,362,016 | (198,396) | 145,111 | 8,308,731 | 15,939 | 8,324,670 |

## DISTRIBUTION STATEMENT

*For the year ended 31st December, 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Profit/(loss) for the year, before distributions to Unitholders** | | **626,804** | (2,150,171) |
| Adjustments: | | | |
| Difference in accounting Base Rent and actual contractual cash Base Rent | | **30,660** | (21,310) |
| Amount set aside on account for the furniture, fixtures and equipment reserve | | **(24,115)** | (29,011) |
| REIT Manager fees paid/payable in the form of Units | | **65,207** | 72,867 |
| Amortisation of debt establishment costs | | **8,311** | 7,844 |
| Fair value changes on investment properties | | **(271,732)** | 3,133,715 |
| Fair value changes of derivative financial instruments | | **(8,951)** | 23,920 |
| Deferred tax charge/(credit) | | **131,982** | (535,924) |
| **Distributable income for the year attributable to Unitholders** | (a) & (b) | **558,166** | 501,930 |
| Distribution per Unit: | | | |
| | | **HK$** | HK$ |
| Interim | (a) | **0.085** | 0.08300 |
| Final | (b), (c) & (d) | **0.085** | 0.08461 |
| | | **0.170** | 0.16761 |

**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 the minimum amount of 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 resolved to make an interim distribution of HK$0.085 per Unit for the interim period ended 30th June, 2009, resulting in a total amount of interim distribution of approximately HK$258.3 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 10th May, 2010 in respect of the final distribution for the period from 1st July, 2009 to 31st December, 2009. The final distribution will be paid out to Unitholders on or about 20th May, 2010. The total amount of final distribution to be paid to Unitholders of approximately HK$274.3 million is arrived at based on the final distribution per Unit of HK$0.085 and the number of Units expected to be in issue at the Record Date that are entitled to distribution as detailed in note (c) below. The total amount of distribution to Unitholders for the year, being the total of the interim distribution of approximately HK$258.3 million and the final distribution of approximately HK$274.3 million, amounted to HK$532.6 million or approximately 95.4% of the Total Distributable Income for the year.

(c) Pursuant to the distribution deed dated 2nd March, 2007, Great Prestige Investments Limited, a wholly-owned subsidiary of Regal Hotels International Holdings Limited, agreed to waive its distribution entitlements with respect to 373,134,326 Units held (the "AEP Units") pending completion of the Asset Enhancement Programme or AEP (as defined hereinafter) at the relevant Initial Hotels (as defined hereinafter). Following the completion and hand over of the 280 additional rooms in Regal Riverside Hotel to Regal REIT on 26th June, 2009, all AEP was completed and, accordingly, all AEP Units became entitled to any distributions for periods commencing from 1st July, 2009. The number of Units expected to be entitled to distribution for the period from 1st July, 2009 to 31st December, 2009 is calculated as follows:

| | **Number of Units** |
|---|---:|
| In issue as at 31st December, 2009 | 3,204,394,184 |
| Issued on 29th January, 2010 to the REIT Manager for the REIT Manager Base Fees for November 2009 | 2,257,484 |
| Issued on 26th February, 2010 to the REIT Manager for the REIT Manager Base Fees for December 2009 | 2,148,942 |
| To be issued to the REIT Manager for the REIT Manager Variable Fees for the year ended 31st December, 2009 | 14,217,185 |
| To be issued to the REIT Manager for the REIT Manager Base Fees for January 2010 and February 2010 | 3,908,643 |
| Units expected to be in issue and entitled to distribution at the Record Date | 3,226,926,438 |

The above calculation does not take into consideration any Units which may be repurchased and cancelled subsequent to the approval of the consolidated financial statements but before the Record Date.

(d) The final distribution of HK$0.085 per Unit for the period from 1st July, 2009 to 31st December, 2009, involving a total amount of final distribution of approximately HK$274.3 million, was resolved and declared by the REIT Manager on 18th March, 2010. 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, 2010. The final distribution for the period from 1st July, 2008 to 31st December, 2008 of approximately HK$256.0 million was included in the amount of distributions paid during the year as reported in the current year's consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31st December, 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax and distributions to Unitholders | | **777,348** | (2,684,941) |
| Adjustments for: | | | |
| Fair value changes on investment properties | 11 | **(271,982)** | 3,133,715 |
| Difference in accounting Base Rent and actual contractual cash Base Rent | 5 | **30,660** | (21,310) |
| Bank interest income | 5 | **(329)** | (4,452) |
| REIT Manager fees in the form of Units | 6 | **65,207** | 72,867 |
| Finance costs - excluding distributions to Unitholders | 8 | **176,967** | 179,709 |
| Fair value changes of derivative financial instruments | | **(8,951)** | 23,920 |
| | | **768,920** | 699,508 |
| Decrease in accounts receivable | | **2,161** | 86,666 |
| Decrease/(increase) in prepayments, deposits and other receivables | | **9,014** | (8,956) |
| Decrease/(increase) in restricted cash | | **(6,771)** | 14,268 |
| Increase in accounts payable | | **709** | 675 |
| Increase in deposits received | | **4,620** | — |
| Increase/(decrease) in other payables and accruals | | **(7,161)** | 2,340 |
| **Cash generated from operations** | | **771,492** | 794,501 |
| Interest received | | **331** | 4,559 |
| Interest paid | | **(172,518)** | (174,683) |
| Hong Kong profits tax paid | | **(17,061)** | (6,216) |
| **Net cash flows from operating activities** | | **582,244** | 618,161 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of subsidiaries | 25 | **(195,909)** | — |
| Additions to investment properties | | **(72,275)** | (64,831) |
| Additions to construction in progress | | **—** | (10,768) |
| Decrease/(increase) in restricted cash | | **(4,567)** | 4,648 |
| **Net cash flows used in investing activities** | | **(272,751)** | (70,951) |

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Consideration for repurchase of Units | | **—** | (21,172) |
| Unit repurchase expenses | | **—** | (97) |
| New bank borrowings, net of debt establishment costs | | **149,295** | — |
| Repayment of bank borrowings | | **(70,000)** | — |
| Advance from a related company | | **17,500** | — |
| Distributions paid | | **(514,328)** | (511,441) |
| Decrease in restricted cash | | **2,556** | 18,877 |
| **Net cash flows used in financing activities** | | **(414,977)** | (513,833) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(105,484)** | 33,377 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | **173,789** | 140,412 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | **68,305** | 173,789 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 18 | **68,305** | 8,789 |
| Non-pledged time deposits with original maturities of less than three months when acquired | 18 | **—** | 165,000 |
| | | **68,305** | 173,789 |

## 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 and the third supplemental trust deed dated 8th May, 2009) 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, hospitality-related properties and other commercial 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. 1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong and Level 48, Cheung Kong Center, 2 Queen's Road Central, 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 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. They have been prepared under the historical cost convention, except for investment properties and derivative financial instruments, which have been measured at fair values. These consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of Regal REIT.

### Basis of consolidation

The consolidated financial statements cover the financial statements of the Group for the year ended 31st December, 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of Regal REIT's subsidiaries.

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 1 and HKAS 27 Amendments | Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* |
| HKFRS 8 | *Operating Segments* |
| HKAS 1 (Revised) | *Presentation of Financial Statements* |
| HKAS 18 Amendment* | Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent* |
| HKAS 23 (Revised) | *Borrowing Costs* |
| HKAS 32 and HKAS 1 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* |
| HK(IFRIC)-Int 9 and HKAS 39 Amendments | Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* |
| HK(IFRIC)-Int 13 | *Customer Loyalty Programmes* |
| HK(IFRIC)-Int 15 | *Agreements for the Construction of Real Estate* |
| HK(IFRIC)-Int 16 | *Hedges of a Net Investment in a Foreign Operation* |
| HK(IFRIC)-Int 18 | *Transfers of Assets from Customers* (adopted from 1st July, 2009) |
| Improvements to HKFRSs (October 2008) | Amendments to a number of HKFRSs |

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009)

Other than as further explained below, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements. The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of input using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 31 to the financial statements while the revised liquidity risk disclosures are presented in note 32 to the financial statements.

(b) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments based on information about the components of the entity that is available to the chief operating decision-maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. In prior years, as all of the Group's operations are located and carried out in Hong Kong, and the sole principal activity of the Group is investing in hotel properties, no segment information by business and geographical segment was presented under HKAS 14. In the current year, the Group adopted HKFRS 8 and the segment information is set out in note 4 to the financial statements.

(c) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The statement of changes in net assets includes only details of transactions with owners, with all non-owner changes in net assets being presented as a single line. In addition, this standard also introduces the statement of comprehensive income, with all items of income and expense being recognised in profit or loss, together with all other items of recognised income and expense being recognised directly in the statement of changes in net assets, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(d) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. The Group has considered that the amendments have no material impact to the accounting treatment for the Units issued to Unitholders as the components of the Units that would be classified as equity is insignificant. Accordingly, the Units continue to be classified as financial liabilities, representing the obligation of Regal REIT to distribute no less than 90% of its distributable income to Unitholders.

(e) In October 2008, HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which is effective for annual periods beginning on or after 1st July, 2009, the Group adopted all the amendments from 1st January, 2009. Other than the amendments to HKAS 40 *Investment Property*, none of these remaining amendments has had a significant financial impact to the Group.

HKAS 40 revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property. The Group has applied the amendment prospectively from 1st January, 2009. The Group's accounting policy for investment properties is to subsequently state them at fair value with changes in fair values recognised in the income statement. As a result of the amendment, an investment property under construction is carried at fair value at the earlier of when the fair value first becomes reliably determinable and when the construction of the property is completed.

As a result of the adoption of this amendment, the Group reclassified construction in progress of HK$16,743,000 into investment properties as at 1st January, 2009. No gain or loss on fair value changes is recognised relating to these properties during the year.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| HKFRS 1 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standards* [1] |
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2] |
| HKFRS 1 Amendment | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [4] |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2] |
| HKFRS 3 (Revised) | *Business Combinations* [1] |
| HKFRS 9 | *Financial Instruments* [6] |
| HKAS 24 (Revised) | *Related Party Disclosures* [5] |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements* [1] |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3] |
| HKAS 39 Amendment | Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1] |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5] |
| HK(IFRIC)-Int 17 | *Distributions of Non-cash Assets to Owners* [1] |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* [4] |
| Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008 | Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* [1] |
| HK Interpretation 4 (Revised in December 2009) | *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2] |

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1st July, 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1st January, 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1st July, 2009
2 Effective for annual periods beginning on or after 1st January, 2010
3 Effective for annual periods beginning on or after 1st February, 2010
4 Effective for annual periods beginning on or after 1st July, 2010
5 Effective for annual periods beginning on or after 1st January, 2011
6 Effective for annual periods beginning on or after 1st January, 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity whose financial and operating policies Regal REIT controls, directly or indirectly, so as to obtain benefits from its activities.

### Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed, as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31st December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### 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.*

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, investment properties, goodwill and deferred tax assets), 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 to sell, 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 income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any 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 other than goodwill 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 had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

### Related parties

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

(i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Group; (b) has an interest in the Group that gives it significant influence over the Group; or (c) has joint control over the Group;

(ii) the party is a member of the key management personnel of the Group or its parent;

(iii) the party is a close member of the family of any individual referred to in (i) or (ii); or

(iv) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (ii) or (iii).

## Investment properties

Investment properties are interests in land and buildings, including properties under construction/renovation for future use as investment property, 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 income statement in the year in which they arise.

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

Property being constructed, renovated or developed for future as an investment property is classified as an investment property. When the fair value of properties under construction/renovation is not reliably determinable, such properties are stated at cost and remeasured at fair value at the earlier of which the fair value first becomes reliably determinable and when the construction/renovation/development of the property is completed.

## Investments and other financial assets

*Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

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 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 is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

## 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 derecognised when:

- the rights to receive cash flows from the asset have expired;
- 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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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 any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has 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 individually whether objective evidence of impairment exists 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss 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). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. 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.

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 future write-off is later recovered, the recovery is credited to other expenses in the income statement.

## Financial liabilities

*Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are classified 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. The Group determines the classification of its financial liabilities at initial recognition.

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

*Subsequent measurement*

The 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 includes 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 being held for trading if they are acquired for the purpose of selling 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 income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

*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 income statement when the liabilities are derecognised as well as through the effective interest rate method 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 income statement.

*Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged, 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 recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only 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.

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

### 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 income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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 income statement in finance costs.

Amounts recognised in other comprehensive income are transferred to the income statement 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 forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

*Current versus non-current classification*

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

- Where the Group will 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 consistent 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.

## 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 for the current and prior periods 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 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:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where 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, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where 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 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 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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement 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 is recognised in the income statement on the straight-line basis over the terms of the relevant leases;

(b) Additional Base Rent, Variable Rent and the furniture, fixtures and equipment reserve contributions are recognised as income in the accounting period in which they are earned in accordance with the terms of the respective agreements;

(c) other rental income is recognised on a time proportion basis over the lease terms; and

(d) interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through 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 ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement.

## 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 the disclosure of contingent liabilities, at the end of the reporting period. However, 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 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.

*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 income statement.

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 judgement 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 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 set out below.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

*Estimation of fair values of investment properties*

The fair value of each investment property is individually determined at the end of each reporting period by an independent valuer based on a market value assessment, on an open market, existing use basis. 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 and cash flow profile. The discounted cash flow projections of each investment property are based on reliable estimates of expected future cash flows, supported by the terms of any existing leases and other contracts 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.

*Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the carry forward of unused tax losses can be utilised. Recognition of deferred tax primarily involves judgement and estimations regarding the future performance of the Group. A variety of other factors is also evaluated in considering whether there is convincing evidence that it is probable that some portion 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 profit 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 about 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, are mainly focused on the segment results related to the nature of investment 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 invests in the Initial Hotels; and (ii) the mixed use property segment which invests in the Regal iClub Building.

During the year ended 31st December, 2008, all of the Group's investment properties were hotel properties which belonged to the hotel properties segment. Segment results for the year ended 31st December, 2008 represented net rental income for that year.

The operating segments of the Group for the year ended 31st December, 2009 are as follows:

| | Hotel Properties HK$'000 | Mixed Use Property HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Segment revenue** | | | |
| Gross rental revenue from lessees | 758,698 | 4,710 | 763,408 |
| **Segment results** | 749,379 | 4,625 | 754,004 |
| Fair value changes on investment properties | 270,982 | 1,000 | 271,982 |
| Bank interest income | | | 329 |
| REIT Manager fees | | | (70,801) |
| Trust and other expenses | | | (9,981) |
| Fair value changes of derivative financial instruments | | | 8,951 |
| Net interest expense on derivative financial instruments | | | (169) |
| Finance costs - excluding distributions to Unitholders | | | (176,967) |
| Profit before tax and distributions to Unitholders | | | 777,348 |

### Segment assets and liabilities

For the purpose of performance assessment, fair values of investment properties are reviewed by the Group's chief operating decision-maker.

As at 31st December, 2009, the aggregate fair values of investment properties in the hotel properties segment and the mixed use property segment were HK$13,810,000,000 (2008: HK$13,020,000,000) and HK$480,000,000 (2008: Nil), respectively.

Save as set out above, no other assets and liabilities are included in the measure of the Group's segment reporting.

### Other segment information

| | Year ended 31st December, 2009 | | |
|---|---|---|---|
| | Hotel Properties HK$'000 | Mixed Use Property HK$'000 | Total HK$'000 |
| Capital expenditure* | 519,018 | 479,000 | 998,018 |

| | Year ended 31st December, 2008 | | |
|---|---|---|---|
| | Hotel Properties HK$'000 | Mixed Use Property HK$'000 | Total HK$'000 |
| Capital expenditure* | 90,458 | — | 90,458 |

* Capital expenditure consists of additions to construction in progress, investment properties including additions from the business combination.

### Information about a major customer

Revenue of approximately HK$758,698,000 (2008: HK$761,963,000) was derived from lease of the hotel properties to a single lessee.

### Geographical information

The Group's investment properties are all located in Hong Kong.

## 5. GROSS RENTAL REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the gross rental revenue and other rental-related income received and receivable from its investment properties during the year.

An analysis of gross rental revenue and other income is as follows:

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Gross rental revenue** | | | |
| Rental income | | | |
| – Initial Hotels | (a) | **727,171** | 723,198 |
| – Regal iClub Building | (b) | **4,710** | — |
| Other rental-related income | (c) | **24,115** | 29,011 |
| Other | | **7,412** | 9,754 |
| | | **763,408** | 761,963 |
| **Other income** | | | |
| Bank interest income | | **329** | 4,452 |

Notes:

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

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Base Rent: | | |
| Cash Base Rent | **750,000** | 700,000 |
| Cash Additional Base Rent | **7,831** | 1,888 |
| Difference in accounting Base Rent and actual contractual cash Base Rent | **(30,660)** | 21,310 |
| | **727,171** | 723,198 |

Under the terms of the lease agreements with the lessee with respect to the 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"), the Group is entitled to receive:

(i) cash base rent (the "Base Rent"), in the form of a pre-determined fixed cash sum per annum payable monthly in advance up to the year ending 31st December, 2010. In 2009, the annual cash Base Rent was fixed at HK$750 million (2008: HK$700 million). According to the Group's accounting policy, Base Rent from operating leases is recognised in the income statement on the straight-line basis over the terms of the relevant leases resulting in a difference in accounting Base Rent and actual contractual cash Base Rent;

(ii) cash additional base rent (the "Additional Base Rent"), for capital additions (the "Capital Additions") projects which are proposed by the lessee, are approved and funded by the Group and are intended to increase revenue and rental payment capacity of any one of the Initial Hotels. The Additional Base Rent for such approved Capital Additions projects is payable by the lessee commencing from the date on which the Capital Additions projects have been completed and accepted by the Group, and have been commissioned for operation to the satisfaction of the Group. The Additional Base Rent is payable until the year ending 31st December, 2010 and the Additional Base Rent for each financial year shall be equal to such percentage, as is agreed between the Group and the lessee, of the cost of the approved Capital Additions projects to be funded by the Group. Where, with respect to any approved Capital Additions projects in any financial year, the Additional Base Rent is payable with respect to a period that is less than a full financial year, the amount of such Additional Base Rent shall be apportioned according to the number of days in such period, based on a 365-day year; and

(iii) variable rent (the "Variable Rent"), computed on pre-determined percentages of the annual aggregate profits from the operations of the Initial Hotels, adjusted for the cash Base Rent and cash Additional Base Rent payments, until the year ending 31st December, 2010, and payable semi-annually. Regal REIT is entitled to a share of 100% in 2007, 70% in 2008, 60% in 2009 and 50% in 2010. No Variable Rent was earned in the years ended 31st December, 2008 and 31st December, 2009.

For the years from 2011 to 2015, the determination of the Base Rent and the Variable Rent with respect to the Initial Hotels is subject to annual rent reviews by an independent property valuer.

(b) Under the terms of the lease agreement with the lessee with respect to the Regal iClub Building, a subsidiary of Regal REIT receives from the lessee a rent of HK$2 million per calendar month (excluding management expenses, rates, government rent and other sums payable by the lessee under the lease agreement) until 31st December, 2010. In 2009, the rental was pro-rated from 21st October, 2009, the day following the completion date of the acquisition of the holding company of the Regal iClub Building. Further details of which are included in note 25 to the financial statements.

(c) Other rental-related income represents contributions to the furniture, fixtures and equipment reserve (the "FF&E Reserve") which is received from the lessee of the Initial Hotels in accordance with the terms of the lease agreements. The FF&E Reserve contributions are for additions to and replacements of furniture, fixtures and equipment for the Initial Hotels.

## 6. REIT MANAGER FEES

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Base Fees: | | |
| In the form of Units | **41,749** | 50,940 |
| In the form of cash | **1,943** | (6,839) |
| Variable Fees: | | |
| In the form of Units | **23,458** | 21,927 |
| In the form of cash | **141** | 666 |
| Acquisition Fee: | | |
| In the form of cash | **3,510** | — |
| | **70,801** | 66,694 |
| Total REIT Manager Fees: | | |
| In the form of Units | **65,207** | 72,867 |
| In the form of cash | **5,594** | (6,173) |
| | **70,801** | 66,694 |

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 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 financial year as defined in the Trust Deed in respect of each Initial Hotel and Regal iClub Building, 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).

During the year, REIT Manager fees of approximately HK$34.8 million (2008: HK$42.5 million) were settled by 29,729,318 Units (2008: 28,222,178 Units). REIT Manager fees of approximately HK$30.4 million (2008: HK$30.4 million), comprising Base Fees for November 2009 and December 2009 and Variable Fees for the year ended 31st December, 2009, are to be settled in Units subsequent to the end of the reporting period in accordance with the terms of the Trust Deed.

## 7. TRUST AND OTHER EXPENSES

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Auditors' remuneration: | | |
| Audit fees | **1,068** | 1,320 |
| Non-audit fees | **751** | 416 |
| Legal and other professional fees | **4,196** | 6,869 |
| Trustee fees | **2,173** | 2,879 |
| Valuation fees | **660** | 650 |
| Other expenses | **1,133** | 702 |
| | **9,981** | 12,836 |

Regal REIT did not appoint any directors and the Group did not engage any employees during the year (2008: Nil) and, accordingly, no directors and employee benefit expenses were incurred during the year (2008: Nil).

## 8. FINANCE COSTS - EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Interest expenses on interest-bearing bank borrowings repayable within five years | **59,627** | 147,467 |
| Fair value changes of derivative financial instruments – cash flow hedge (transfer from hedging reserve) | **108,678** | 23,792 |
| Amortisation of debt establishment costs | **8,340** | 7,844 |
| Loan commitment fees | **92** | 376 |
| Loan agency fee | **230** | 230 |
| | **176,967** | 179,709 |

## 9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Charge for the year | **17,832** | 1,154 |
| Deferred (note 22) | **133,866** | (535,924) |
| Total tax charge/(credit) for the year | **151,698** | (534,770) |

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax and distributions to Unitholders at the Hong Kong statutory rate of 16.5% (2008: 16.5%) to the tax charge/(credit) at the Group's effective tax rate is as follows:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Profit/(loss) before tax and distributions to Unitholders | **777,348** | (2,684,941) |
| Tax at the statutory tax rate | **128,262** | (443,015) |
| Effect on opening deferred tax of decrease in rate | **—** | (91,207) |
| Income not subject to tax | **(1,531)** | (4,251) |
| Expenses not deductible for tax | **24,967** | 3,703 |
| Tax charge/(credit) at the Group's effective rate | **151,698** | (534,770) |

## 10. EARNINGS/(LOSS) 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 approximately HK$626,804,000 (2008: loss of HK$2,150,171,000) and the weighted average of 3,178,410,420 Units (2008: 3,126,064,726 Units) in issue during the year. The basic earnings per Unit attributable to Unitholders for the year amounted to HK$0.197 (2008: basic loss per Unit of HK$0.688).

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

## 11. INVESTMENT PROPERTIES

| | Completed HK$'000 | Properties under renovation HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1st January, 2008 | 16,080,000 | — | 16,080,000 |
| Fair value changes | (3,133,715) | — | (3,133,715) |
| Capital expenditure for the year | 73,715 | — | 73,715 |
| At 31st December, 2008 and 1st January, 2009 | 13,020,000 | — | 13,020,000 |
| Transfers from construction in progress upon adoption of the Amendment to HKAS 40 *Investment Property* (note 13) | — | 16,743 | 16,743 |
| Additions through a business combination (note 25) | 404,000 | — | 404,000 |
| Fair value changes | 271,982 | — | 271,982 |
| Transfers from prepaid construction costs (note 12) | 505,000 | — | 505,000 |
| Capital expenditure for the year | 54,979 | 17,296 | 72,275 |
| Transfers upon completion of construction | 34,039 | (34,039) | — |
| At 31st December, 2009 | 14,290,000 | — | 14,290,000 |

The Group's investment properties were valued on 31st December, 2009 by Colliers International (Hong Kong) Limited, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK$14,290,000,000 on an open market value, existing use basis. The investment properties are leased to related parties under operating leases, further details of which are included in note 27(a) to the financial statements.

The Group's investment properties, which are situated in Hong Kong and held under medium to long term leases, have been pledged to secure banking facilities granted to the Group (note 20).

Further particulars of the Group's investment properties are included on pages 158 to 159.

## 12. PREPAID CONSTRUCTION COSTS

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| At beginning of the year | **430,000** | 430,000 |
| Additions through a business combination (note 25) | **75,000** | — |
| Transfers to investment properties (note 11) | **(505,000)** | — |
| At end of the year | **—** | 430,000 |

At 31st December, 2008, the prepaid construction costs of HK$430,000,000 represented the prepaid project costs for the remaining asset enhancement programme with respect to the Regal Riverside Hotel (the "Regal AEP") including construction costs, fit-out of 280 additional rooms in Regal Riverside Hotel and ancillary facilities, related renovations, land premiums and any other costs in respect of the Regal AEP.

The additions to the prepaid construction costs of HK$75,000,000 during the current year represented the prepaid project costs for the asset enhancement programme with respect to the Regal iClub Building (the "PHL AEP") including renovation costs, fit-out costs of converting 50 hotel rooms in the Regal iClub Building and any other costs in respect of the PHL AEP.

During the current year, aggregate prepaid construction costs of HK$505,000,000, with respect to Regal Riverside Hotel and Regal iClub Building, were transferred to investment properties (note 11) upon completion of the Regal AEP and PHL AEP.

## 13. CONSTRUCTION IN PROGRESS

As at 31st December, 2008, construction in progress represented the amount incurred for renovation projects in respect of the Initial Hotels which had not been completed as at the end of the reporting period. The balance was stated at cost, less any impairment losses and was not depreciated. Construction in progress was only reclassified to investment properties when completed and ready for commercial use. Following the adoption of the Amendment to HKAS 40 *Investment Property*, with effect from 1st January, 2009, construction in progress is accounted for in accordance with the Group's accounting policy for investment properties as set out in note 2.4 to the financial statements and, accordingly, construction in progress in the amount of approximately HK$16,743,000 was reclassified to investment properties as at 1st January, 2009 (note 11).

## 14. GOODWILL

| | HK$'000 |
|---|---|
| Arose from a business combination (note 25) and cost and carrying amount at 31st December, 2009 | 5,940 |

### Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the mixed use property cash-generating unit, which is a reportable segment, for impairment testing. The recoverable amount of the mixed use property cash-generating unit has been determined based on a value in use calculation using cash flow projections approved by the management. The discount rate applied to the cash flow projections is 5.5% and cash flows beyond the five-year period are extrapolated using a growth rate of 3.5%.

Key assumptions were used in the value in use calculation of the mixed use property cash-generating unit. Management prepared the financial projections reflecting actual performance and market development expectations. Management estimates the discount rate using pre-tax rates that reflects market assessment of the time value of money and the specific risks relating to the cash-generating unit.

## 15. ACCOUNTS RECEIVABLE

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Difference in accounting Base Rent and actual contractual cash Base Rent | 60,660 | 91,320 |
| Cash Additional Base Rent receivables | — | 1,888 |
| FF&E Reserve contribution receivables | 2,710 | 2,936 |
| | 63,370 | 96,144 |

The difference in accounting Base Rent and actual contractual cash Base Rent is recognised as revenue in the income statement on the straight-line basis over the lease term in accordance with the Group's accounting policy.

The cash Additional Base Rent receivables and FF&E Reserve contribution receivables represent amounts due from a related company. The amounts are unsecured and repayable within one year in accordance with the terms of the respective agreements.

The Group's accounts receivable are neither past due nor impaired and are due from a related company which has no recent history of default.

## 16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Prepayments | **1,048** | 1,078 |
| Deposits | **1,413** | — |
| Other receivables | **35** | 2 |
| REIT Manager Base Fee adjustment receivables | **—** | 9,192 |
| | **2,496** | 10,272 |

Deposits in the amount of approximately HK$1,212,000 were placed with a related company with respect of services provided to the Regal iClub Building. The amounts are unsecured and repayable on demand.

REIT Manager Base Fee adjustment receivables represented an amount due from the REIT Manager arising from an adjustment to REIT Manager Base Fee, which was unsecured, interest-free and fully repaid during the year.

## 17. RESTRICTED CASH

At 31st December, 2009, the Group had approximately HK$56.5 million (2008: HK$47.7 million) of cash which was restricted to use and mainly to be utilised for the purpose of servicing the finance costs and repayments on certain interest-bearing bank borrowings, funding the furniture, fixtures and equipment reserve for use in the Initial Hotels and deposits of certain tenants in respect of the Regal iClub Building. All of the restricted cash is expected to be released within one year from the end of the reporting period and is, accordingly, classified as a current asset.

## 18. CASH AND CASH EQUIVALENTS

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Cash and bank balances | **68,305** | 8,789 |
| Time deposits | **—** | 165,000 |
| Cash and cash equivalents | **68,305** | 173,789 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

## 19. ACCOUNTS PAYABLE

This represents amounts due to related companies which are unsecured, interest-free and repayable on demand.

## 20. INTEREST-BEARING BANK BORROWINGS

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest-bearing bank borrowings | **4,641,000** | 4,350,000 |
| Debt establishment costs | **(21,554)** | (28,134) |
| | **4,619,446** | 4,321,866 |
| Portion classified as current liabilities | **(5,413)** | — |
| Non-current portion | **4,614,033** | 4,321,866 |
| Analysed into bank loans repayable: | | |
| Within one year | **5,413** | — |
| In the second year | **5,413** | — |
| In the third to fifth years, inclusive | **4,608,620** | 4,321,866 |
| | **4,619,446** | 4,321,866 |

Under a banking facility agreement, the Group was granted a facility aggregating HK$4.5 billion (the "Initial Facility"). The Initial Facility bears interest at a floating interest rate of 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.6% per annum. At the end of the reporting period, the Group had fully utilised the Initial Facility. The Initial Facility is repayable in full on 30th March, 2012. The Group has entered into interest rate swap arrangements to hedge against the interest rate exposure for the Initial Facility for a notional amount of HK$4.35 billion, details of which are set out in note 21.

During the year, the Group was granted another banking facility aggregating HK$211.0 million, comprised of a term loan of HK$141.0 million and a revolving credit facility of HK$70.0 million (the "New Facility"). At the end of the reporting period, the term loan was fully drawn down and is repayable quarterly with the final payment being due on 22nd October, 2012. The New Facility bears interest at rates ranging from 215 to 230 basis points above HIBOR where HIBOR can be on a 1, 2 or 3 month basis as selected by the borrower.

Bank borrowings under the Initial Facility are guaranteed by Regal REIT and, on a joint and several basis, by certain individual companies of the Group and the bank borrowings under the New Facility are guaranteed by Regal REIT and Paliburg Holdings Limited on proportions of 75% and 25%, respectively, on a several basis.

The Initial Facility and the New Facility are also secured by, amongst others:

(i) legal charges and debentures over the investment 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, and relating to the investment properties;

(iii) charges over each rental account, sale proceeds account and other control accounts, if any;

(iv) a floating charge over all of the undertakings, properties, assets and rights of each of the Group companies; and

(v) an equitable charge over the shares in the relevant Group companies.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

| | Liabilities | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Interest rate swaps - cash flow hedges | **213,365** | 196,587 |

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to one of its floating rate term loans with a notional amount of HK$4.35 billion (note 20). The full fair value of these cash flow hedges is classified as a non-current item as the remaining maturities of the hedged items extend for more than 12 months. Major terms of the interest rate swaps are set out below.

| Notional amount | Maturity | Swaps |
|---|---|---|
| HK$2,350,000,000 | 18th January, 2012 | From a rate of 3-month HIBOR plus 0.6% per annum to a flat rate of 4.53% up to 17th January, 2008; and a floating rate of 3-month HIBOR plus 0.6% per annum, subject to a cap of 7.15% and a floor of 3.8% per annum for the period from 18th January, 2008 to 18th January, 2012 |
| HK$2,000,000,000 | 18th January, 2012 | From a rate of 3-month HIBOR plus 0.6% per annum to a flat rate of 4.55% up to 17th January, 2008; and a floating rate of 3-month HIBOR plus 0.6% per annum, subject to a cap of 7.15% and a floor of 3.8% per annum for the period from 18th January, 2008 to 18th January, 2012 |

The above derivatives are measured at fair values at the end of the reporting period and are determined based on discounted cash flow models.

## 22. DEFERRED TAX

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

| | Depreciation allowances in excess of related depreciation HK$'000 | Fair value adjustments arising from revaluations of investment properties HK$'000 | Losses available for offsetting against future taxable profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Gross deferred tax assets/(liabilities) at 1st January, 2008 | (166,547) | (1,571,707) | 142,134 | (1,596,120) |
| Deferred tax credited/(charged) to the income statement during the year (note 9) | (13,455) | 606,875 | (57,496) | 535,924 |
| Gross deferred tax assets/(liabilities) at 31st December, 2008 and 1st January, 2009 | (180,002) | (964,832) | 84,638 | (1,060,196) |
| Additions through a business combination (note 25) | (2,466) | (22,110) | 10,130 | (14,446) |
| Deferred tax charged to the income statement during the year (note 9) | (59,528) | (44,877) | (29,461) | (133,866) |
| Gross deferred tax assets/(liabilities) at 31st December, 2009 | (241,996) | (1,031,819) | 65,307 | (1,208,508) |

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | **64,433** | 116,455 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **(1,272,941)** | (1,176,651) |
| | **(1,208,508)** | (1,060,196) |

The deferred tax liabilities and assets set out above primarily relate to the deferred tax calculated on the revaluation surplus/deficit on the investment properties in accordance with HKAS 12 *Income Tax*. However, based on the current tax legislation in Hong Kong, no capital gains tax is payable upon disposal of the investment properties.

## 23. NUMBER OF UNITS IN ISSUE

| | Number of Units 2009 | 2008 |
|---|---|---|
| Units in issue: | | |
| At beginning of the year | **3,142,196,102** | 3,115,512,324 |
| REIT Manager fees paid in the form of Units | **62,198,082** | 40,075,778 |
| | **3,204,394,184** | 3,155,588,102 |
| Units repurchased | **—** | (13,392,000) |
| At end of the year | **3,204,394,184** | 3,142,196,102 |

During the year ended 31st December, 2008, Regal REIT repurchased a total of 13,392,000 Units at an aggregate purchase price of HK$21,172,010 on the Stock Exchange. Details of the repurchases of such Units were as follows:

| **Month of repurchase** | **Number of Units repurchased** | **Price per Unit Highest HK$** | **Price per Unit Lowest HK$** | **Aggregate purchase price HK$** |
|---|---|---|---|---|
| June 2008 | 3,069,000 | 1.61 | 1.56 | 4,849,890 |
| July 2008 | 9,912,000 | 1.62 | 1.54 | 15,699,400 |
| September 2008 | 411,000 | 1.60 | 1.28 | 622,720 |
| Total | 13,392,000 | | | 21,172,010 |
| Total expenses on Units repurchased | | | | 96,739 |
| | | | | 21,268,749 |

These 13,392,000 repurchased Units were cancelled during the year ended 31st December, 2008. The above repurchases were effected by the REIT Manager, pursuant to a mandate from Unitholders.

## 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, 2009 of approximately HK$8,308,731,000 (2008: HK$8,156,777,000) by the number of Units in issue of 3,204,394,184 (2008: 3,142,196,102) as at that date.

## 25. BUSINESS COMBINATION

On 20th October, 2009, Regal REIT acquired 75% of the total issued share capital (the "Acquisition") of Twentyfold Investments Limited ("Twentyfold") for a total consideration of approximately HK$198.0 million from Paliburg Development BVI Holdings Limited (the "Vendor"), a wholly-owned subsidiary of Paliburg Holdings Limited ("PHL"). Twentyfold together with its subsidiary (the "Twentyfold Group") holds the Regal iClub Building. Pursuant to the sale and purchase agreement, Regal REIT (at the direction of the REIT Manager) shall, at its own discretion, have the option to purchase the remaining 25% of the issued share capital of Twentyfold. The consideration shall be equal to 25% of the adjusted net asset value (subject to certain agreed adjustments) of the Twentyfold Group.

In addition, the Vendor undertook to complete, at its cost, the PHL AEP for a consideration of HK$75.0 million. PHL guaranteed this obligation on PHL AEP to Regal REIT. Further details of which are set out in note 12 to the financial statements.

The fair values of the identifiable assets and liabilities of the Twentyfold Group at the date of completion of the Acquisition are summarised as follows:

| | **HK$'000** |
|---|---|
| Investment properties (note 11) | 404,000 |
| Prepaid construction costs for the PHL AEP (note 12) | 75,000 |
| Current assets | 3,384 |
| Other current liabilities | (1,504) |
| Other non-current liabilities | (401) |
| Due to a related company | (46,929) |
| Deferred tax liabilities (note 22) | (14,446) |
| Interest-bearing bank borrowings | (209,945) |
| Minority interest | (17,093) |
| | 192,066 |
| Goodwill on Acquisition (note 14) | 5,940 |
| Total cost of the Acquisition | 198,006 |

The above acquisition cost was satisfied by cash and included the assumption of 75% of a shareholder's loan due to a related company in the amount of approximately HK$140,786,000 upon completion of the Acquisition together with costs directly attributable to the Acquisition of approximately HK$3,355,000.

An analysis of the net outflow of cash and cash equivalents in respect of the Acquisition is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | 198,006 |
| Cash and bank balances acquired | (2,097) |
| Net outflow of cash and cash equivalents in respect of the Acquisition | 195,909 |

Since the Acquisition, Twentyfold and its subsidiary have contributed approximately HK$4.7 million to the Group's gross rental income and a loss of approximately HK$4.6 million to the operating results for the year before minority interest and the distributions to Unitholders.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit for the year before minority interest and distributions to Unitholders would have been HK$773.1 million and HK$663.7 million, respectively.

## 26. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Major non-cash transaction

During the year, REIT Manager fees of approximately HK$65.2 million (2008: HK$72.9 million) were settled/to be settled in the form of Units, details of which are set out in note 6 to the financial statements.

## 27. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties, as set out in note 11, under operating lease arrangements. At 31st December, 2009, the total future minimum lease receivables under non-cancellable operating leases with its lessees fall due as follows:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **935,222** | 759,094 |
| In the second to fifth years, inclusive | **1,004** | 784,921 |
| | **936,226** | 1,544,015 |

Certain of the leases contain Additional Base Rent and Variable Rent provisions, details of which are set out in note 5(a) to the financial statements.

Certain of the operating leases were entered into by the Group on behalf of a related company.

### (b) As lessee

The Group leases certain premises under an operating lease arrangement. The lease would expire on 1st March, 2010 with an option to renew for another 12 years. During the lease term, the rental is subject to review every three years. At 31st December, 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Within one year | **835** | 5,008 |
| In the second to fifth years, inclusive | **—** | 835 |
| | **835** | 5,843 |

During the year ended 31st December, 2009, the total minimum lease payments under operating leases in respect of land and buildings included in property operating expenses of approximately HK$5,008,000 (2008: HK$5,213,000) were charged to the consolidated income statement.

## 28. COMMITMENTS

In addition to the operating lease commitments detailed in note 27(b) above, the Group had the following capital commitments in respect of its investment properties at the end of the reporting period:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Authorised and contracted for | **775** | 19,598 |
| Authorised, but not contracted for | **21,062** | 28,332 |
| | **21,837** | 47,930 |

## 29. 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 related parties during the year:

| **Connected/related parties** | **Relationship with the Group** |
|---|---|
| DB Trustees (Hong Kong) Limited (the "Trustee") | 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") | The 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 |
| Colliers International (Hong Kong) Limited/ CB Richard Ellis Limited (the "Valuer") | The principal valuer of the Group |

(a) Transactions with connected/related parties:

| | **Notes** | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|---|
| Contractual rental and rental-related income received/receivable from the RHIHL Group | (i) | **789,358** | 740,653 |
| Contractual rental and rental-related income received/receivable from the PHL Group | (ii) | **4,710** | — |
| Interest expense charged by the Deutsche Bank Group | (iii) | **(49,982)** | (29,259) |
| REIT Manager fees | (iv) | **(70,801)** | (66,694) |
| Trustee fees | (v) | **(2,173)** | (2,879) |
| Valuation fees paid/payable to the Valuer | (vi) | **(660)** | (650) |

Notes:

(i) The rental and rental-related income are earned by the Group in accordance with the relevant agreements with respect to the Initial Hotels, details of which, including the terms, are set out in note 5 to the financial statements.

(ii) The rental and rental-related income are earned by the Group in accordance with the lease with respect to the Regal iClub Building, details of which, including the terms, are set out in note 5 to the financial statements.

(iii) The interest expense is related to bank balances maintained and interest rate swaps with the Deutsche Bank Group. The interest expense is incurred thereon in accordance with the relevant bank agreements and swap contracts with the Deutsche Bank Group.

(iv) The REIT Manager is entitled to receive Base Fees, Variable Fees and Acquisition Fee, details of which, including the terms, are set out in note 6 to the financial statements.

(v) 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.

(vi) The valuation fees are charged by the Valuer in accordance with the terms of the relevant agreements.

(b) Balances with connected/related parties were as follows:

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| Net amounts due from/(to) the RHIHL Group: | | | |
| Cash Additional Base Rent receivables, FF&E Reserve contribution receivables and other receivables | (i) | **2,739** | 4,824 |
| REIT Manager Fees adjustment receivables | (i) | **—** | 9,192 |
| Accounts payable to related companies | (ii) | **(7,595)** | (6,887) |
| Amount due to a related company | (ii) | **(89)** | (103) |
| Net amounts due from/(to) the PHL Group: | | | |
| Advance from a related company | (iii) | **(64,429)** | — |
| Deposits paid | (i) | **1,212** | — |
| Deposits received | (iv) | **(4,689)** | — |
| Net amounts due to: | | | |
| The Trustee | (v) | **(679)** | (702) |
| The Valuer | (vi) | **(660)** | (650) |
| Restricted and non-restricted short-term deposits and bank balances with the Deutsche Bank Group | (vii) | **24,782** | 174,303 |

Notes:

(i) Details of the balances are set out in notes 15 and 16 to the financial statements.

(ii) The amounts are unsecured, interest-free and repayable on demand.

(iii) The amount is unsecured, interest-free and not repayable within one year.

(iv) The amount was paid by the lessee with respect to the lease of the Regal iClub Building and is repayable within one year.

(v) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.

(vi) The amount is repayable in accordance with the terms of the relevant agreement.

(vii) The short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. The 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 has undertaken to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK$4 billion and procured an unconditional and irrevocable bank guarantee in the amount of HK$1 billion in favour of the Group and the Trustee. In addition, under the terms of the lease agreements, the RHIHL Group has guaranteed to pay a total Variable Rent, at a minimum, of HK$220.0 million for the period from 30th March, 2007 to 31st December, 2010.

(d) Under a deed of trade mark licence, the RHIHL Group had granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trade marks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.

(e) Pursuant to the PHL Lease, the PHL Group has guaranteed (i) the PHL Lessee's obligations to pay to a subsidiary of Regal REIT and the Trustee, on demand by a subsidiary of Regal REIT 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 a subsidiary of Regal REIT under the PHL Lease, and (ii) the due observance and performance of, all terms, conditions, covenants, agreements and obligations contained in the PHL Lease, and on the part of the PHL Lessee, to be observed and performed.

## 30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of designated categories of financial instruments as at the end of the reporting period are as follows:

**Financial assets**

| | Loans and receivables | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Financial assets included in accounts receivable | **2,710** | 4,824 |
| Financial assets included in prepayments, deposits and other receivables | **1,448** | 9,194 |
| Restricted cash | **56,454** | 47,673 |
| Cash and cash equivalents | **68,305** | 173,789 |
| | **128,917** | 235,480 |

**Financial liabilities**

| | 2009 | | |
|---|---|---|---|
| | **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 | **—** | **7,595** | **7,595** |
| Deposits received | **—** | **6,395** | **6,395** |
| Other payables and accruals | **—** | **46,448** | **46,448** |
| Due to a related company | **—** | **64,429** | **64,429** |
| Derivative financial instruments | **213,365** | **—** | **213,365** |
| Interest-bearing bank borrowings | **—** | **4,619,446** | **4,619,446** |
| | **213,365** | **4,744,313** | **4,957,678** |

| | 2008 | | |
|---|---|---|---|
| | 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 | — | 6,887 | 6,887 |
| Other payables and accruals | — | 57,370 | 57,370 |
| Derivative financial instruments | 196,587 | — | 196,587 |
| Interest-bearing bank borrowings | — | 4,321,866 | 4,321,866 |
| | 196,587 | 4,386,123 | 4,582,710 |

## 31. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31st December, 2009, the Group held the following financial instruments measured at fair value:

*Liabilities measured at fair value as at 31st December, 2009:*

| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| Derivative financial instruments | — | 213,365 | — | 213,365 |

During the year ended 31st December, 2009, there were no transfers into or out of Level 3 fair value measurements.

## 32. 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 financial statements. These swaps are designated to hedge underlying bank borrowing obligations.

For Hong Kong dollars bank 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/decrease in interest rates at 31st December, 2009 would have decreased/increased the Group's profit before tax and distributions to Unitholders by approximately HK$2.9 million. The Group's interest rate risk was not material for the year ended 31st December, 2008. The sensitivity to the interest rate used is considered reasonable with the other variables held constant.

### Credit risk

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

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

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:

| | **2009** | | | |
|---|---|---|---|---|
| | **On demand HK$'000** | **Less than 12 months HK$'000** | **1 to 5 years HK$'000** | **Total HK$'000** |
| Interest-bearing bank borrowings | **—** | **175,553** | **4,848,000** | **5,023,553** |
| Accounts payable | **7,595** | **—** | **—** | **7,595** |
| Deposits received | **—** | **5,855** | **540** | **6,395** |
| Other payables and accruals | **212** | **46,236** | **—** | **46,448** |
| Due to a related company | **—** | **—** | **64,429** | **64,429** |
| Derivative financial instruments | **—** | **—** | **213,365** | **213,365** |
| | **7,807** | **227,644** | **5,126,334** | **5,361,785** |

| | 2008 | | | |
|---|---|---|---|---|
| | On demand HK$'000 | Less than 12 months HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
| Interest-bearing bank borrowings | — | 165,300 | 4,721,248 | 4,886,548 |
| Accounts payable | 6,887 | — | — | 6,887 |
| Other payables and accruals | 104 | 57,266 | — | 57,370 |
| Derivative financial instruments | — | — | 196,587 | 196,587 |
| | 6,991 | 222,566 | 4,917,835 | 5,147,392 |

The amount in respect of derivative financial instruments represents the contractual amount to be exchanged for which gross cash flows are exchanged, plus 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 investment 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 ratio as stipulated in certain banking facilities ranged from 32.6% to 44.0% (2008: 32.3%), which was below the thresholds as allowed under the respective banking facility agreements. At the end of the reporting period, the gearing ratio of 31.9% (2008: 31.3%), being the gross amount of the outstanding loans of approximately HK$4,641.0 million (2008: HK$4,350.0 million) divided by the total assets of approximately HK$14,563.9 million (2008: HK$13,916.1 million), was below the maximum limit of 45% stipulated under the REIT Code.

## 33. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

## 34. EVENTS AFTER THE REPORTING PERIOD

(a) On 29th January, 2010, 2,257,484 new Units were issued to the REIT Manager at HK$1.52 per Unit in settlement of the REIT Manager Base Fee of approximately HK$3.4 million for November 2009.

(b) On 26th February, 2010, 2,148,942 new Units were issued to the REIT Manager at HK$1.65 per Unit in settlement of the REIT Manager Base Fee of approximately HK$3.5 million for December 2009.

(c) In accordance with the terms of the Trust Deed, 14,217,185 new Units will be issued to the REIT Manager in settlement of the REIT Manager Variable Fee of approximately HK$23.5 million for the year ended 31st December, 2009.

## 35. CONTINGENCIES

A wholly-owned subsidiary of Regal REIT that owns the Regal Hongkong Hotel had instituted legal proceedings with the High Court in 2007 as plaintiff (the "Plaintiff") against a defendant who is the owner of a neighboring commercial building regarding a claim for reinstatement of easements and rights of way on the 1st floor and basement and for damages for interference during the renovation period of that commercial building (the "Claims"). The defendant made a counterclaim against the Plaintiff with respect to the usage of certain driveway areas on the ground floor of the Regal Hongkong Hotel (the "Counterclaim").

On 1st February, 2010, the High Court released a judgement to dismiss the Plaintiff's Claims and the defendant's Counterclaim and made a costs order nisi that the Plaintiff pay the defendant the costs of the Claims and the defendant pay the Plaintiff the costs of the Counterclaim (the "Judgement").

Having considered opinions from the Group's legal counsel, the Directors take the view that the subsidiary has reasonable grounds to make an appeal against the Judgement. On 26th February, 2010, an appeal was filed by the Plaintiff against the Judgement on the Claims made by the High Court. Accordingly, the Group has not provided for any losses which could arise from the Judgement, other than its own related legal and other costs.

## 36. 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 | 75 | Property 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

ERNST & YOUNG
安永

**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 48 to 96, which comprise the consolidated statement of financial position as at 31st December, 2009, and the consolidated income statement, 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 notes.

## MANAGER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Manager of Regal REIT is responsible for the preparation and the true and fair presentation of these financial statements 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 and the third supplemental trust deed dated 8th May, 2009 (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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## 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 as to 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 and true and fair presentation of the consolidated financial statements 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, 2009 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*

18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

18th March, 2010

# PERFORMANCE TABLE

**As at 31st December, 2009**

| | Notes | **Year ended 31st December, 2009** | Year ended 31st December, 2008 | Period from 11th December, 2006 (date of establishment) to 31st December, 2007 |
|---|---|---|---|---|
| Net assets attributable to Unitholders (HK$'million) | | **8,308.7** | 8,156.8 | 10,915.1 |
| Net asset value per Unit attributable to Unitholders (HK$) | | **2.593** | 2.596 | 3.503 |
| The highest traded price during the year/period (HK$) | 1 | **1.70** | 2.37 | 2.79 |
| The lowest traded price during the year/period (HK$) | | **0.84** | 0.66 | 1.99 |
| The highest discount of the traded price to net asset value per Unit attributable to Unitholders | | **67.61%** | 74.58% | 43.19% |
| Distribution yield per Unit | 2 | **10.30%** | 17.28% | 7.20% |
| Annualised distribution yield per Unit | | **10.30%** | 17.28% | 9.48% |

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 of 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, 2009 is calculated by dividing the total distributions per Unit of HK$0.170 over the closing price of HK$1.65 as at 31st December, 2009, 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 53.

# TRUSTEE'S REPORT

## TO THE UNITHOLDERS OF REGAL REAL ESTATE INVESTMENT TRUST

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

We hereby confirm that, in our opinion, the Manager of Regal Real Estate Investment Trust ("Regal REIT") has, in all material respects, managed Regal REIT in accordance with the provisions of the Trust Deed dated 11 December 2006 (as amended by first supplemental deed dated 2 March 2007, second supplemental deed dated 15 May 2008 and third supplemental deed dated 8 May 2009), for the period from 1 January 2009 to 31 December 2009.

**DB Trustees (Hong Kong) Limited**
*(in its capacity as the trustee of Regal REIT)*

Hong Kong, 12 March 2010

# VALUATION REPORT

25 February 2010

**Regal Portfolio Management Limited**
Unit No. 1504, 15th Floor,
68 Yee Wo Street,
Causeway Bay,
Hong Kong
(as "Manager" of Regal REIT)

and

**DB Trustees (Hong Kong) Limited**
48th Floor, Cheung Kong Center,
2 Queen's Road Central,
Hong Kong
(as "Trustee" of Regal REIT)

COLLIERS INTERNATIONAL

Colliers International (Hong Kong) Ltd
Company Licence No: C-006052
Suite 5701 Central Plaza
18 Harbour Road Wanchai
Hong Kong
高力國際物業顧問(香港)有限公司
香港灣仔港灣道18號中環廣場5701室
Tel 852 2828 9888
Fax 852 2107 6051
www.colliers.com

Dear Sirs,

**Re : Valuation of Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, Regal Riverside Hotel and Regal iClub Building in Hong Kong (collectively the "Properties")**

## Instructions

In accordance with the instructions of the Manager on behalf of Regal REIT (the "Client") to value the Properties, we confirm that we have carried out physical inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the leasehold interests of the Properties in their existing state as at 31 December 2009 (the "date of valuation").

We hereby confirm that:

- We have no present or prospective interest in the Properties and are not a related corporation of nor have a relationship with the Manager, the Trustee or any other party or parties with whom Regal REIT is contracting.
- We are authorised to practice as valuer and have the necessary expertise and experience in valuing similar types of properties.
- The valuations have been prepared on a fair and unbiased basis.

## Basis of Valuation

Our valuation of the Properties represents the Market Value, which is defined by the HKIS as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

## Valuation Standards

The valuations have been carried out in accordance with The HKIS Valuation Standards on Properties (1st Edition January 2005) published by The Hong Kong Institute of Surveyors; the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; and Chapter 6.8 of The Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in June 2005.

## Valuation Rationale

In the course of our valuations, we have adopted the Income Capitalisation Approach – Discounted Cash Flow Analysis. This approach is defined in the International Valuation Standards (8th Edition) as a financial modelling technique based on explicit assumptions regarding the prospective cash flows from income generating properties. This analysis involves the projection of a series of periodic cash flows for an income generating property. To this projected cash flow series, an appropriate discount rate is applied to establish an indication of the present value of the rental income stream associated with the property.

In the case of income generating property, periodic cash flow is typically estimated as gross income less vacancy, operating expenses and other outgoings. The series of periodic net operating income, along with an estimate of the reversionary or terminal value anticipated at the end of the projection period, is then discounted at the discount rate, being a cost of capital or a rate of return used to convert a monetary sum, payable or receivable in the future, into present value.

We have undertaken a Discounted Cash Flow Analysis on an annual basis over a ten-year investment horizon. This analysis allows an investor or owner to make an assessment of the long-term return that is likely to be derived from a property taking into account capital growth.

This Analysis has then been cross-checked by the Direct Comparison Approach assuming sales of the Properties in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market. By analysing sales which qualify as "arm's-length" transactions, between willing buyers and sellers, relevant adjustments are made when comparing such sales against the Properties.

## Title Investigations

We have not been provided with extracts from title documents relating to the Properties but have conducted searches at the Land Registry. We have not, however, been provided with the original documents to verify the ownership, nor to ascertain the existence of any amendments which may not appear on our searches. We do not accept any liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

## Sources of Information

We have relied to a considerable extent on the information provided by the Client on such matters as tenancy schedules, statutory notices, easements, tenure, floor areas, building plans and all other relevant matters. Dimensions, measurements and areas included in the valuation are based on information contained in the documents provided to us and are, therefore, only approximations.

We have also been advised by the Client that no material factors or information have been omitted or withheld from the information supplied and consider that we have been provided with sufficient information to reach an informed view. We believe that the assumptions used in preparing our valuations are reasonable.

## Site Measurement

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the areas shown on the documents and plans provided to us are correct.

## Site Inspection

We have inspected the exteriors and the interiors of the Properties. However, we have not carried out investigations to determine the suitability of ground conditions and services, etc. Our valuations have been prepared on the assumption that these aspects are satisfactory.

Moreover, no structural surveys have been undertaken but, in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the utility services.

## Assumptions and Caveats

Our valuations have been made on the assumption that the Client sell the Properties on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, or any similar arrangements which would affect their values although they are subject to the existing management agreements.

No allowances have been made in our valuations for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxes which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

This report and our valuations are for the use of the REIT Manager and the Trustee of Regal REIT and the report is for the use only of the parties to whom it is addressed and for no other purpose. No responsibility is accepted to any third party who may use or rely on the whole or any part of the content of these valuations.

We have made the following assumptions:

- All information on the Properties provided by the Client is correct.
- Proper ownership titles and relevant planning approvals of the Properties have been obtained, all payable land premiums, land use rights fees and other relevant fees have been fully settled and the Properties can be freely transferred, sub-let, mortgaged or otherwise disposed of.
- We have been provided with the tenancy schedules, a standard Tenancy Agreement and a Licence Agreement by the Client. We have not examined the lease documents for each specific tenancy and our assessment is based on the assumption that all leases are executed and are in accordance with the provisions stated in the tenancy schedules provided to us. Moreover, we assume that the tenancies are valid, binding and enforceable.
- Unless otherwise stated, we have not carried out any valuation on a redevelopment basis, nor the study of possible alternative options.
- No acquisition costs or disposal costs have been taken into account in the valuations.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollars (HK$).

Our Summary of Values and Valuation Reports are attached hereto.

Yours faithfully,
For and on behalf of
**Colliers International (Hong Kong) Ltd.**

**David Faulkner**
*BSc (Hons) FRICS FHKIS RPS(GP) MAE*
Regional Director
Consultancy and Valuation – Asia

Note: David Faulkner is a Chartered Surveyor and has over 30 years' experience in the valuation of properties of this magnitude and nature, and over 25 years' experience in Hong Kong/China.

## SUMMARY OF VALUES

| No. | Property | Market Value in existing state as at 31 December 2009 HK$ |
|---|---|---|
| 1 | **Regal Airport Hotel**<br>9 Cheong Tat Road,<br>Hong Kong International Airport,<br>Chek Lap Kok,<br>New Territories,<br>Hong Kong | 3,520,000,000 |
| 2 | **Regal Hongkong Hotel**<br>88 Yee Wo Street,<br>Causeway Bay,<br>Hong Kong | 3,160,000,000 |
| 3 | **Regal Kowloon Hotel**<br>71 Mody Road,<br>Tsimshatsui,<br>Kowloon,<br>Hong Kong | 3,470,000,000 |
| 4 | **Regal Oriental Hotel**<br>30-38 Sa Po Road and<br>Shops 3-11 on Ground Floor including<br>Cockloft of Shops 5-7 and the whole of 1/F,<br>Po Shing Court,<br>21-25 Shek Ku Lung Road,<br>40-42 Sa Po Road and<br>15-29 Carpenter Road,<br>Kowloon City,<br>Kowloon,<br>Hong Kong | 1,280,000,000 |
| 5 | **Regal Riverside Hotel**<br>34-36 Tai Chung Kiu Road,<br>Shatin,<br>New Territories,<br>Hong Kong | 2,380,000,000 |
| 6 | **Regal iClub Building**<br>Shops A, B and C on G/F, Flat Roof on 3/F,<br>whole of 5-12/F, 15-23/F and 25-29/F,<br>Eastern and Western Elevations of External Walls,<br>Architectural Feature at Roof Top and Upper Roof,<br>211 Johnston Road,<br>Wanchai,<br>Hong Kong | 480,000,000 |
| | **Total:** | **14,290,000,000** |

**Property 1**

## REGAL AIRPORT HOTEL

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

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

## 1. PROPERTY DESCRIPTION

Regal Airport Hotel ("RAH") is a 14-storey (including one basement floor) High Tariff A[1] Hotel completed in 1999. An Asset Enhancement Programme ("AEP") was completed in October 2007 and the number of rooms increased from 1,104 to 1,171.

The immediate locality of RAH are mainly supporting facilities of the airport, carpark, and the passenger terminals. RAH is connected to the passenger terminal of the Hong Kong International Airport ("HKIA") by an air-conditioned footbridge on the 2nd Floor.

| | |
|---|---|
| **Site Area:** | 117,179 sq.ft. (10,886 sq.m.) |
| **Gross Floor Area:** | 774,880 sq.ft. (71,988 sq.m.) |
| **Covered Floor Area:** | Approx. 897,900 sq.ft. (83,417 sq.m.) |
| **Town Planning Zoning:** | RAH falls within "Commercial" zone under Chek Lap Kok Outline Zoning Plan No. S/I-CLK11 dated 12 June 2009. |

### Hotel Guestroom Configuration

| Room Type | No. of Rooms | Room Type | No. of Rooms |
|---|---|---|---|
| Standard Room | 216 | Cabana Room | 17 |
| Superior Room | 380 | Apartment | 9 |
| Deluxe Room | 236 | Regal Club Superior Room | 68 |
| Premier Room | 100 | Regal Club Deluxe Room | 94 |
| Deluxe Suite | 15 | Honeymoon Suite | 1 |
| Spa Superior Room | 14 | Royal Suite | 11 |
| Spa Cabana Room | 5 | Duplex Suite | 2 |
| Spa Suite | 2 | Presidential Suite | 1 |
| | | **Total** | **1,171** |

Note: The room sizes range from 291 sq.ft. (27 sq.m.) to 926 sq.ft. (86 sq.m.), except for the presidential suite which is 3,014 sq.ft. (280 sq.m).

[1] RAH has been rated as "High Tariff A" by Hong Kong Tourism Board, effective from January 2008.

### Food and Beverage Outlets

| Floor | Name of Outlet | Type of Facilities | Area (approx.) (sq.ft.) | Area (approx.) (sq.m.) | Seating Capacity Max. No. of Person |
|---|---|---|---|---|---|
| G/F | Café Aficionado | Coffee Shop | 7,895 | 733 | 733 |
| G/F | China Coast Bar & Grill | Western Restaurant | 5,920 | 550 | 550 |
| G/F | Dragon Inn | Chinese Restaurant | 3,492 | 324 | 324 |
| G/F | Airport Izakaya | Japanese Restaurant | 2,179 | 202 | 202 |
| 1/F | Rouge | Chinese Restaurant | 4,889 | 454 | 454 |
| 2/F | Regala Café & Dessert Bar | Lounge | 3,295 | 306 | 306 |
| | | **Total** | **27,670** | **2,569** | **2,569** |

### Meeting and Banquet Facilities

| Floor | Name of Function Room | Type of Facilities | No. of Rooms | Area (approx.) (sq.ft.) | Area (approx.) (sq.m.) | Seating Capacity Max. No. of Person |
|---|---|---|---|---|---|---|
| B/F | Meeting Rooms | Convention | 13 | 10,958 | 1,018 | 1,018 |
| B/F | Pre-Function Area | Convention | 1 | 6,755 | 628 | 628 |
| G/F | Function Room | Convention | 1 | 1,921 | 178 | 178 |
| 1/F | Ballroom | Convention/ Banquet | 1[2] | 10,333 | 960 | 960 |
| 1/F | Meeting Rooms | Convention/ Banquet | 7 | 5,274 | 490 | 490 |
| 2/F | Meeting Rooms | Convention | 3 | 1,017 | 94 | 94 |
| 9/F | Meeting Room | Convention | 1 | 645 | 60 | 60 |
| | | **Total** | **27** | **36,903** | **3,428** | **3,428** |

### Other Facilities

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

[2] The Ballroom can be subdivided into three rooms.

## 2. OWNERSHIP AND TENURE

**Registered Owner:** Airport Authority[3]

**Lease Term:** The Lot is held under New Grant No. IS7996 for a term commencing from 1 December 1995 and expiring on 30 June 2047.

**Major Registered Encumbrances**

- Sub-Lease of Hotel in favour of Bauhinia Hotels Limited dated 12 August 2004, registered vide Memorial No. IS342341. The term of the Sub-Lease commenced from 31 December 2003 until the date occurring 25 years thereafter.
- Supplemental Lease (To Sub-Lease of Hotel Memorial No. IS342341) in favour of Bauhinia Hotels Limited dated 8 November 2006, registered vide Memorial No. 06112400700018.
- Bauhinia Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850013.
- Mortgage and Assignment of Rights in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850060.

## 3. HOTEL OPERATION

### Hotel Performance in 2009

**Occupancy Rate:** 57%

**Average Room Rate:** HK$1,044

### Lease Agreement

**Lessor:** Bauhinia Hotels Limited

**Lessee:** Favour Link International Limited

**Term of Lease Agreement:** Commencing from the Listing Date and expiring on 31 December 2015 (both days inclusive).

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

**Rental:** From 2007 to 2010 – Base Rent plus a Variable Rent. The Variable Rent is 50% to 100% of the excess of the aggregate Net Property Income ("NPI") of the five Initial Hotels[4] over the aggregate base rent of the Initial Hotels for such year, 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. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

| Year | Base Rents[5] | Rates of Variable Rents |
|---|---|---|
| 2007 | Pro-rated portion of HK$270,000,000 which is for whole year Apportioned to HK$204,000,000 | 100% |
| 2008 | HK$300,000,000 | 70% |
| 2009 | HK$230,700,000 | 60% |
| 2010 | HK$240,000,000 | 50% |

From the Listing Date through 2010, Regal Hotels International Holdings Limited guarantees that the Variable Rent shall be no less than HK$220.0 million in total subject to no disposals of any of the Initial Hotels during the period. From the Listing Date to 31 December 2009, Variable Rent of HK$101.6 million was received. The Minimum Guaranteed Variable Rent remaining, amounts to HK$118.4 million for 2010.

From 2011 to 2015, the Market Rent[6] to be determined in accordance with the Lease Agreement subject to a minimum rental guarantee of HK$175,000,000 per annum.

**Remarks:** Under the Lease Agreement, the Lessee is required to contribute monthly to a Furniture, Fixtures and Equipment ("FF&E") Reserve an amount equivalent to two percent (2%) of the Total Hotel Revenue for each Fiscal Year from the Listing Date until 31 December 2010.

## Hotel Management Agreement ("HMA")

**Hotel Manager:** Regal Hotels International Limited

**Term of HMA:** Twenty (20) years from the Listing Date

**Base Fee:** One percent (1%) of Gross Revenue[7] (for so long as the Lease Agreement is in subsistence); or
Two percent (2%) of Gross Revenue (for other cases during the Operating Term)

**Incentive Fee:** One percent (1%) of the excess of the Adjusted GOP[8] over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or

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

4 Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.
5 Base Rent payable by the Lessee for the years 2009 and 2010 is based on the First Supplemental Agreement amending the Lease Agreement for Regal Airport Hotel entered into between Bauhinia Hotels Limited and Favour Link International Limited on 12 February 2010.
6 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.
7 According to the Hotel Management Agreement, "Gross Revenue" means all revenue derived from the Hotel.
8 According to the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

## 4. RETAIL TENANCIES/LICENCE SCHEDULES

### Retail[9]

**Retail Area (Lettable):** Approx. 40,100 sq.ft. (3,725 sq.m.)

**Occupied Area (Lettable):** Approx. 10,697 sq.ft. (994 sq.m.)

**Vacant Area (Lettable):** Approx. 29,403 sq.ft. (2,732 sq.m.)

**Occupancy Rate:** 26.7%

**Monthly Base Rent:** HK$296,733 (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.)

### Tenancy Expiry Profile

| Year | Lettable Area (sq.ft.) | % of Total | Monthly Rental (HK$) | % of Total | No. of Tenancy | % of Total |
|---|---|---|---|---|---|---|
| Monthly | 794 | 7.4% | 27,790 | 9.4% | 1 | 12.5% |
| Year Ending 2010 | 8,920 | 83.4% | 219,364 | 73.9% | 5 | 62.5% |
| Year Ending 2011 | 983 | 9.2% | 49,579 | 16.7% | 2 | 25.0% |
| **Total** | **10,697** | **100% (rounded)** | **296,733** | **100% (rounded)** | **8** | **100% (rounded)** |

### Tenancy Duration Profile

| Tenancy Duration | Lettable Area (sq.ft.) | % of Total | Monthly Rental (HK$) | % of Total | No. of Tenancy | % of Total |
|---|---|---|---|---|---|---|
| Monthly | 794 | 7.4% | 27,790 | 9.4% | 1 | 12.5% |
| 1 year or less than 1 year | 3,367 | 31.5% | 67,972 | 22.9% | 2 | 25.0% |
| More than 1 year and up to 2 years | 1,874 | 17.5% | 103,069 | 34.7% | 4 | 50.0% |
| More than 2 year and up to 3 years | 4,662 | 43.6% | 97,902 | 33.0% | 1 | 12.5% |
| **Total** | **10,697** | **100% (rounded)** | **296,733** | **100% (rounded)** | **8** | **100% (rounded)** |

[9] The areas quoted exclude shop units on 2/F with a lettable area of 760 sq.ft. (71 sq.m.) which is used by RAH.

**Latest Expiry Date:** 30 November 2011

**Range of Rent Free Period:** 0 to 3 months

**Option to Renew:** Two of the tenancies have an option to renew for one year and two years at a pre-determined rent and at market rent respectively.

**Summary of Terms:** The Landlord[10] 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.

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

**Number of Licences:** 7

**Monthly Licence Fee:** HK$241,500 per month

**Latest Expiry Date:** Monthly Licences

## 5. HOTEL MARKET COMMENTARY

Total visitor arrivals to Hong Kong increased by 0.3% on a year-on-year ("y-o-y") basis in 2009 with 29.6 million[11] of these approximately 61% were from Mainland China. Mainland visitors continue to be the largest source of visitors, with just under 18 million[12], representing growth of 6.5% y-o-y. Cumulative increases in other markets were recorded, such as the Middle East (2.0% y-o-y), India (4.6% y-o-y), Indonesia (1.3% y-o-y); whereas the USA, Taiwan, Europe and North Asia reduced when compared to 2008. The increase in total visitor arrivals is mainly driven by the strong economic rebound in the last quarter of 2009 following the H1N1 outbreak earlier in the year and recovery from the downturn.

However, as a result of weak overseas demand, citywide average achieved room rates of all hotels[13] fell by 16%[14] y-o-y in 2009, resulting in a drop in overall RevPAR of 23%[15] y-o-y. The average occupancy of all hotels in Hong Kong dropped by 7% point y-o-y, from 85% to 78%[16] in 2009 and this was due not only to a drop in hotel room demand[17] but also an increase in the available room supply[18]. Hong Kong is resilient compared to other regional destinations[19] and it is expected the air traffic will increase in the coming years which will in turn improve overall hotel performance.

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10 All tenancies are entered by Favour Link International Ltd as Landlord.

11 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

12 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

13 All hotels include High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels, Research, Hong Kong Tourism Board.

14 Source: "Visitor Arrivals Statistics – Dec 2008 and 2009", Research, Hong Kong Tourism Board.

15 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Reports Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

16 Source: "Hotel Room Occupancy Report Dec 2009", Research, Hong Kong Tourism Board, Jan 2010.

17 The drop in hotel room demand is resulted from a decrease in the number of overnight visitors as reported in "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

18 Source: "Hotel Room Occupancy Reports Jan - Dec. 2008-2009", Research, Hong Kong Tourism Board, Jan 2009-2010 and "Hong Kong Tourism Board Hotel Classification System – 2008". All hotels available room supplies are calculated based on hotel available room supplies in High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels shown in the monthly "Hotel Room Occupancy Reports" for the relevant periods; Colliers International.

19 Apart from South Korea, where weak won boosted inbound arrivals; Taiwan, due to the opening of a direct link from Mainland China; and also Malaysia, due to the increase in flight capacity to and from Singapore. Source: Korea Tourism Organisation, Tourism Bureau Ministry of Transportation and Communications; Tourism Malaysia and Hong Kong Tourism Board.

The tourism industry forms a major part of Hong Kong's gross domestic product, with support from the Government enhancing the appeal of Hong Kong as an international convention, exhibition and tourism capital. The Government also has been making continuous investments in infrastructure, as well as tourist and travel related facilities which support Hong Kong as a travel destination and regional hub. They are listed below:

- The expansion of the Hong Kong Convention and Exhibition Centre which was completed in April 2009.
- The planning and commencement of major infrastructure development projects, such as Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge (approved), Hong Kong-Shenzhen Airport Rail Link, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District and Kai Tak Development.
- The opening of the new SkyPier at HKIA providing high-speed ferries connecting to eight ports in the Mainland with a maximum capacity of eight million passengers annually.
- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.
- The planned expansion of HKIA to provide additional aircraft facilities and a third runway.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.
- The development of a world-class Kai Tak Cruise Terminal together with the Ocean Terminal in Tsimshatsui to provide a total of four berths for cruise vessels.
- Fiscal policies to position Hong Kong as a events capital of Asia, with a HK$100 million Mega Events Fund[20].
- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.
- The success of creating a marketing platform - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2010 is expected to improve which will have a positive impact on hotel performance.

RAH is located at HKIA and is the only hotel that offers a direct link to the airport passenger terminals by an air-conditioned footbridge. RAH benefits from the extensive transport facilities located at the airport, which enjoys regular connectivity via the Airport Express Line which links to the Mass Transit Railway, taxis and franchised buses. It is also located close to one of the three main venues for MICE events - the AsiaWorld-Expo - as well as major tourist attractions, such as Hong Kong Disneyland.

Shopping facilities and restaurants are located at the nearby Citygate Outlets Shopping Centre and in the airport itself. Other leisure and entertainment facilities nearby include SkyPlaza and the SkyCity Nine Eagles Golf Course.

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20 Source: The Budget 2009 -2010; and Hong Kong Tourism Board.

The airport's throughput for passengers and cargo was 46.1 million and 3.35 million tons, respectively in 2009, and are expected to increase in the near future with the current development and planned expansion of HKIA strengthening its position and in turn the position of RAH.

RAH benefits from strong room demand with the majority of customers being business visitors (35% in 2009) and airline crews (37% in 2009) due to its strategic location. It also enjoys demand from layover passengers thanks to its contract to accommodate such passengers as handled by the ground-handling unit of HKIA Services Limited. The remaining demand comes from leisure visitors.

The geographical customer market segmentation at RAH is made up of Asian visitors (excluding Mainland China, at 51% in 2009) and Mainland Chinese visitors (15% in 2009). Visitors from the Americas, Europe and other regions represented 34% of the total demand.

There are no planned additions to the supply of hotel rooms in the airport catchment area in the near future which will leave the main competition from the two existing hotels nearby, namely Novotel Citygate Hong Kong in Tung Chung and the Hong Kong SkyCity Marriott Hotel next to AsiaWorld-Expo. RAH is considered as having a competitive advantage over them due to its strategic location, its contract to accommodate layover passengers, and differences in target markets and pricing strategy.

Regal Hotels benefit from distribution through the Preferred Hotel Group[21] and various distribution networks in Mainland China, such as Shanghai 8D Travel Limited[22], Regal Hotels' sales offices as well as the presence of four Regal operated hotels in Shanghai and Chengdu, which emphasises the strong presence of the Regal brand contributing to the success of these hotels.

Occupancy trends at RAH have followed visitor arrival numbers and air passengers. Based on the projected long-term growth in cargo handling and airport passenger capacity, the strategic location of RAH, its strong distribution networks both worldwide and in Mainland China, and also the strong Regal Group representation in Mainland China, and taking into account the proposed upgrade/renovation of 59 rooms and the coffee shop, strong growth in both occupancy and average room rates is expected in the short and medium term.

## 6. ESTIMATED NET PROPERTY YIELD[23]

8.0%

## 7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2009

HK$3,520,000,000

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21 Preferred Hotel Group is a global hotel distribution network with worldwide reservation sales offices and covers over 680 independent hotels and resorts in more than 75 countries as well as more than 130,000 hotel rooms. Available at www.preferredhotelgroup.com.

22 Shanghai 8D Travel Limited is an online platform which targets retail travel agencies and corporate users. It provides shopping reservation services of air ticket and hotel accommodation and MICE Group booking of meeting venues. Available at www.8dtravel.com.cn.

23 The Estimated Net Property Yield of RAH is derived from the estimated rental receivable in 2010 divided by the Market Value.

**Property 2**

## REGAL HONGKONG HOTEL

**88 Yee Wo Street,**
**Causeway Bay, Hong Kong**

Sections C, D, E, F, G, H, I, J, L, M and the Remaining Portion of Inland Lot No. 1408

## 1. PROPERTY DESCRIPTION

Regal Hongkong Hotel ("RHK") is a 38-storey (including four basement floors) High Tariff A Hotel completed in 1993. An Asset Enhancement Programme ("AEP") was completed in December 2007 which has increased the number of rooms from 424 to 474. In January 2009, the Presidential Suite was converted to six Regal Royale guestrooms and three suites which has resulted in an increase in room count from 474 to 482. The majority of rooms command the view of Victoria Park.

RHK also comprises ancillary hotel spaces on the portions of Ground Floor, 1st, 2nd and 3rd Floors and Unit Shop Nos. 301 to 304 on the 3rd Floor of 68 Yee Wo Street[24].

RHK is located in Causeway Bay, one of the major shopping areas in Hong Kong. The immediate locality of RHK is predominately for retail and office usages.

| | |
|---|---|
| **Site Area:** | 12,663 sq.ft. (1,176 sq.m.) |
| **Gross Floor Area:** | 269,988 sq.ft. (25,082 sq.m.) |
| **Covered Floor Area:** | Approx. 343,900 sq.ft. (31,949 sq.m.) |
| **Town Planning Zoning:** | RHK falls within "Commercial/Residential" zone under Causeway Bay Outline Zoning Plan No. S/H6/14 dated 30 September 2005. |

### Hotel Guestroom Configuration

| **Room Type** | **No. of Rooms** |
|---|---|
| Standard Room | 40 |
| Superior Room | 204 |
| Deluxe Room | 117 |
| Premier Room | 39 |
| Deluxe Suite | 20 |
| Royal Suite | 8 |
| Presidential Suite | 1 |
| Imperial Suite | 1 |
| Regal Royale City View | 30 |
| Regal Royale Harbour View | 19 |
| Chairman Suite | 1 |
| Regal Royale Suite | 2 |
| **Total** | **482** |

Note: The room sizes range from 258 sq.ft.(24 sq.m.) to 1,647 sq.ft. (153 sq.m.)

24 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$417,300 with expiration on 1 March 2010 encompassing an option to renew for 12 years. The second one of a lettable area of 3,437 sq.ft. (319 sq.m.) has expired on 28 March 2008. The owner of RHK is currently paying a mesne profit of $96,497 per month.

### Food and Beverage Outlets

| Floor | Name of Outlet | Type of Facilities | Area (approx.) (sq.ft.) | (sq.m.) | Seating Capacity Max. No. of Person |
|---|---|---|---|---|---|
| G/F | Tiffany Lounge | Lobby Lounge | 1,172 | 109 | 109 |
| G/F | Regal Patisserie | Cake Shop | N/A | N/A | N/A |
| 1/F | Café Rivoli | Coffee Shop | 3,399 | 316 | 316 |
| 3/F | Regal Palace | Chinese Restaurant | 8,025 | 746 | 746 |
| 31/F | Zeffirino Ristorante | Italian Restaurant | 2,369 | 220 | 170 |
| | | **Total:** | **14,965** | **1,391** | **1,341** |

### Meeting and Banquet Facilities

| Floor | Name of Function Room | Type of Facilities | No. of Rooms | Area (approx.) (sq.ft.) | (sq.m.) | Seating Capacity Max. No. of Person |
|---|---|---|---|---|---|---|
| 2/B | Function Rooms | Banquet/Convention | 5 | 3,694 | 343 | 343 |
| 1/B | Ballroom | Banquet/Convention | 1 | 2,560 | 238 | 238 |
| 1/B | Meeting Rooms | Banquet/Convention | 3 | 1,898 | 176 | 176 |
| 3/F | Meeting Rooms | Banquet/Convention | 6 | 3,622 | 336 | 336 |
| | | **Total** | **15** | **11,774** | **1,093** | **1,093** |

### Other Facilities

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

## 2. OWNERSHIP AND TENURE

**Registered Owner:** Cityability Limited, via an assignment dated 20 May 1987, registered vide Memorial No. UB3386564 and three assignments all dated 4 August 1988, registered vide Memorial Nos. UB3803869, UB3803870 and UB3803871.

**Lease Term:** The Lot is held under Government Lease for a term of 999 years commencing from 25 December 1884.

### Major Registered Encumbrances

- Deed of Restrictive Covenant dated 13 May 1992, registered vide Memorial No. UB5287070.
- Deed of Covenant and Grant of Right of Way and Easements and Management Agreement dated 13 May 1992, registered vide Memorial No. UB5287071.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. UB8033163.
- Cityabilty Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850058.

## 3. HOTEL OPERATION

### Hotel Performance in 2009

**Occupancy Rate:** 81%

**Average Room Rate:** HK$987

### Lease Agreement

**Lessor:** Cityability Limited

**Lessee:** Favour Link International Limited

**Term of Lease Agreement:** Commencing from the Listing Date and expiring on 31 December 2015 (both days inclusive).

**Rental:** From 2007 to 2010 – Base Rent plus a Variable Rent. The Variable Rent is 50% to 100% of the excess of the aggregate Net Property Income ("NPI") of the five Initial Hotels[25] over the aggregate Base Rent of the Initial Hotels for such year, 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. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

| Year | Base Rents[26] | Rates of Variable Rents |
|---|---|---|
| 2007 | Pro-rated portion of HK$110,000,000, which is for whole year Apportioned to HK$83,130,000 | 100% |
| 2008 | HK$115,000,000 | 70% |
| 2009 | HK$160,700,000 | 60% |
| 2010 | HK$167,100,000 | 50% |

From the Listing Date through 2010, Regal Hotels International Holdings Limited guarantees that the Variable Rent shall be no less than HK$220.0 million in total subject to no disposals of any of the Initial Hotels during the period. From the Listing Date to 31 December 2009, Variable Rent of HK$101.6 million was received. The Minimum Guaranteed Variable Rent remaining amounts to HK$118.4 million for 2010.

From 2011 to 2015, the Market Rent[27] to be determined in accordance with the Lease Agreement subject to a minimum rental guarantee of HK$60,000,000 per annum.

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

26 Base Rent payable by the Lessee for the years 2009 and 2010 is based on the First Supplemental Agreement amending the Lease Agreement for Regal Hongkong Hotel entered into between Cityability Limited and Favour Link International Limited on 12 February 2010.

27 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.

| | |
|---|---|
| **Remarks:** | Under the Lease Agreement, the Lessee is required to contribute monthly to a Furniture, Fixtures and Equipment ("FF&E") Reserve of an amount equivalent to two percent (2%) of the Total Hotel Revenue for each Fiscal Year from the Listing Date until 31 December 2010. |

### Hotel Management Agreement ("HMA")

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

## 4. LICENCE SCHEDULES

### Licences for Installation of Mobile Radio Equipment and Integrated Radio System ("IRS")

| | |
|---|---|
| **Number of Licences:** | 4 |
| **Monthly Licence Fee:** | HK$221,200 per month |
| **Latest Expiry Date:** | 15 August 2011 |

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

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

## 5. HOTEL MARKET COMMENTARY

Total visitor arrivals to Hong Kong increased by 0.3% on a year-on-year ("y-o-y") basis in 2009 with 29.6 million[30]; of these approximately 61% were from Mainland China. Mainland visitors continue to be the largest source of visitors, with just under 18 million[31], representing growth of 6.5% y-o-y. Cumulative increases in other markets were recorded, such as the Middle East (2.0% y-o-y), India (4.6% y-o-y), Indonesia (1.3% y-o-y); whereas the USA, Taiwan, Europe and North Asia reduced when compared to 2008. The increase in total visitor arrivals is mainly driven by the strong economic rebound in the last quarter of 2009 following the H1N1 outbreak earlier in the year and recovery from the downturn.

However, as a result of weak overseas demand, citywide average achieved room rates of all hotels[32] fell by 16%[33] y-o-y in 2009, resulting in a drop in overall RevPAR of 23%[34] y-o-y. The average occupancy of all hotels in Hong Kong dropped by 7% point y-o-y, from 85% to 78%[35] in 2009 and this was due not only to a drop in hotel room demand[36] but also an increase in the available room supply[37]. Hong Kong is resilient compared to other regional destinations[38] and it is expected the air traffic will increase in the coming years which will in turn improve overall hotel performance.

The tourism industry forms a major part of Hong Kong's gross domestic product, with support from the Government enhancing the appeal of Hong Kong as an international convention, exhibition and tourism capital. The Government also has been making continuous investments in infrastructure, as well as tourist and travel related facilities which support Hong Kong as a travel destination and regional hub. They are listed below:

- The expansion of the Hong Kong Convention and Exhibition Centre which was completed in April 2009.
- The planning and commencement of major infrastructure development projects, such as Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge (approved), Hong Kong-Shenzhen Airport Rail Link, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District and Kai Tak Development.
- The opening of the new SkyPier at Hong Kong International Airport ("HKIA") providing high-speed ferries connecting to eight ports in the Mainland with a maximum capacity of eight million passengers annually.

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30 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

31 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

32 All hotels include High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels, Research, Hong Kong Tourism Board.

33 Source: "Visitor Arrivals Statistics – Dec 2008 and 2009", Research, Hong Kong Tourism Board.

34 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Reports Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

35 Source: "Hotel Room Occupancy Report Dec 2009", Research, Hong Kong Tourism Board, Jan 2010.

36 The drop in hotel room demand is resulted from a decrease in the number of overnight visitors as reported in "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

37 Source: "Hotel Room Occupancy Reports Jan - Dec. 2008-2009", Research, Hong Kong Tourism Board, Jan 2009-2010 and "Hong Kong Tourism Board Hotel Classification System – 2008". All hotels available room supplies are calculated based on hotel available room supplies in High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels shown in the monthly "Hotel Room Occupancy Reports" for the relevant periods; Colliers International.

38 Apart from South Korea, where weak won boosted inbound arrivals; Taiwan, due to the opening of a direct link from Mainland China; and also Malaysia, due to the increase in flight capacity to and from Singapore. Source: Korea Tourism Organisation, Tourism Bureau Ministry of Transportation and Communications; Tourism Malaysia and Hong Kong Tourism Board.

- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.
- The planned expansion of HKIA to provide additional aircraft facilities and a third runway.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.
- The development of a world-class Kai Tak Cruise Terminal together with the Ocean Terminal in Tsimshatsui to provide a total of four berths for cruise vessels.
- Fiscal policies to position Hong Kong as a events capital of Asia, with a HK$100 million Mega Events Fund[39].
- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.
- The success of creating a marketing platform - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2010 is expected to improve which will have a positive impact on hotel performance.

RHK is located in Causeway Bay, one of Hong Kong's major shopping areas, and has good accessibility through extensive transport links, namely the Mass Transit Railway ("MTR"), taxis, buses and trams, as well as road networks. The Causeway Bay MTR Station is just a few minutes' walk from RHK.

RHK is located close to shopping and entertainment facilities, such as the Sogo Department Store, Times Square, Fashion Walk and Lee Gardens, as well as a variety of restaurant facilities. The immediate neighbourhood includes sports and recreational facilities, including the Hong Kong Stadium; Victoria Park; and Happy Valley Racecourse. In 2009, nearly half of the room demand of RHK came from leisure visitors (48%).

RHK also enjoys strong demand for rooms from among business visitors, traders, exhibitors and multinational companies due to its location close to the Hong Kong Convention and Exhibition Centre.

RHK also benefits from the close proximity to various corporations and businesses based in Causeway Bay and along the Island Eastern Corridor[40] which attract business visitors to stay at the hotel. In 2009, demand from business visitors represented 39% of the total.

Future developments, such as the pedestrianisation of parts of Causeway Bay and the redevelopment of the Hennessy Centre from office to retail space, will also add to the attractiveness of Causeway Bay as one of the city's major shopping areas.

39 Source: The Budget 2009 -2010; and Hong Kong Tourism Board.

40 Island Eastern Corridor starts from Causeway Bay in the west and ends in Chai Wan in the East and includes the area of Causeway Bay, Tin Hau, North Point, Quarry Bay and Chai Wan.

The geographical customer market segmentation at RHK is made up of Mainland China visitors (38% in 2009) and Asian visitors (excluding Mainland China, at 35% in 2009). Visitors from the Americas, Europe and other regions represented 27% of the total demand.

New hotels namely, the Empire Hotel Hong Kong • Causeway Bay and the Crowne Plaza Hong Kong Causeway Bay, opened in 2009 providing a total of 543 rooms[41] in Causeway Bay. The new hotels may have pressures on both the occupancy rates and the average room rates of RHK in short term, however such new hotels are unlikely to apply significant pressure on RHK due to difference in target markets. Moreover, the upcoming supply such as two proposed hotels[42] with 47 rooms and 69 rooms respectively on Tang Lung Street in Causeway Bay are not expected to directly affect RHK due to differences in scale and target groups, supported by the generally high demand for hotel rooms as demonstrated by the high occupancy rates in Causeway Bay.

The occupancy rate at RHK has outperformed the High Tariff A hotel market[43]. Based on the long-term outlook for hotel room demand in Hong Kong, anticipated growth in both leisure and business demand, the hotel's location and quality of services, strong distribution networks both worldwide and in Mainland China, the strong Regal Group representation in Mainland China, and taking into account the proposed upgrade/renovation of 84 guestrooms, the cake shop and lounge, modest growth in both occupancy and the average room rates is expected.

## 6. ESTIMATED NET PROPERTY YIELD[44]

6.0%

## 7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2009

HK$3,160,000,000

41 Empire Hotel Hong Kong • Causeway Bay has 280 rooms. Crowne Plaza Hong Kong Causeway Bay has 263 rooms. Source: "Hotel Supply Situation – as at Dec 2009", Research, Hong Kong Tourism Board Feb 2010.

42 Planned dates of completion for the proposed 47-room hotel and 69-room hotel are the fourth quarter of 2010 and end of 2012 respectively. Source: "Hotel Supply Situation – as at Dec 2009", Research, Hong Kong Tourism Board Feb 2010.

43 High Tariff A Hotels as defined by Hong Kong Tourism Board.

44 The Estimated Net Property Yield of RHK is derived from the estimated rental receivable in 2010 divided by the Market Value.

PROPERTY 3

## REGAL KOWLOON HOTEL

**71 Mody Road,**
**Tsimshatsui, Kowloon, Hong Kong**

Kowloon Inland Lot No. 10474

## 1. PROPERTY DESCRIPTION

Regal Kowloon Hotel ("RKH") is a 20-storey (including four basement floors) High Tariff A Hotel completed in 1982. The majority of the rooms command an open view of Centenary Garden. The immediate locality is predominately hotel, retail and office usages.

| | |
|---|---|
| **Site Area:** | 27,556 sq.ft. (2,560 sq.m.) |
| **Gross Floor Area:** | 341,714 sq.ft. (31,746 sq.m.) |
| **Covered Floor Area:** | Approx. 468,400 sq.ft. (43,515 sq.m.) |
| **Town Planning Zoning:** | RKH falls within "Commercial" zone under Tsim Sha Tsui Outline Zoning Plan No. S/K1/24 dated 20 March 2009. |

### Hotel Guestroom Configuration

| Room Type | No. of Rooms |
|---|---|
| Standard Room | 83 |
| Superior Room | 132 |
| Deluxe Room | 147 |
| Premier Room | 21 |
| Deluxe Suite | 24 |
| Regal Club Superior Room | 64 |
| Regal Club Deluxe Room | 115 |
| Royal Suite | 13 |
| Presidential Suite | 1 |
| **Total** | **600** |

Note: The room sizes range from 226 sq.ft.(21 sq.m.) to 1,744 sq.ft. (162 sq.m.).

### Food and Beverage Outlets

| Floor | Name of Outlet | Type of Facilities | Area (approx.) (sq.ft.) | Seating Capacity Area (approx.) (sq.m.) | Seating Capacity Max. No. of Person |
|---|---|---|---|---|---|
| 1/B | Café Allegro | Coffee Shop | 3,752 | 349 | 349 |
| G/F | Regala Café & Dessert Bar | Lobby Lounge | 1,636 | 152 | 152 |
| | | Outside Seating[45] | 473 | 44 | 44 |
| G/F | Regala Healthy Cakes | Cake Shop | N/A | N/A | N/A |
| 1/F | Basso Bar | Bar and Lounge | 2,506 | 233 | 233 |
| 1/F | Mezzo Grill | Western Restaurant | 2,123 | 197 | 197 |
| 2/F | Regal Court | Chinese Restaurant | 6,974 | 648 | 648 |
| 3/F | Zeffirino Ristorante | Italian Restaurant | 4,012 | 373 | 373 |
| | | **Total** | **21,476** | **1,996** | **1,996** |

### Meeting and Banquet Facilities

| Floor | Name of Function Room | Type of Facilities | No. of Rooms | Seating Capacity Area (approx.) (sq.ft.) | Seating Capacity Area (approx.) (sq.m.) | Seating Capacity Max. No. of Person |
|---|---|---|---|---|---|---|
| 2/B | Meeting Room | Banquet/Convention | 1 | 1,684 | 156 | 156 |
| 2/F | Meeting Rooms | Banquet/Convention | 6 | 3,563 | 331 | 331 |
| 3/F | Ballroom | Banquet/Convention | 1 | 3,761 | 349 | 349 |
| 3/F | Meeting Rooms | Banquet/Convention | 5 | 2,512 | 233 | 233 |
| | | **Total** | **13** | **11,520** | **1,069** | **1,069** |

### Other Facilities

Other facilities include a business centre, a fitness room, a shopping arcade, a sauna, a night club and a karaoke club. The sauna and the clubs have been leased to and operated by third parties.

[45] Outside seating areas are provided on the G/F next to Regala Café and Dessert Bar.

## 2. OWNERSHIP AND TENURE

**Registered Owner:** Ricobem Limited, via an assignment dated 19 April 1989, registered vide Memorial No. UB4059154.

**Lease Term:** The Lot is held 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 Encumbrances

- Letter of Compliance from District Lands Office Kowloon West Kowloon Government Offices to Paliburg Project Management Limited dated 6 July 1982, registered vide Memorial No. UB3990407.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. UB8033162.
- Ricobem Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850038.

## 3. HOTEL OPERATION

### Hotel Performance in 2009

**Occupancy Rate:** 80%

**Average Room Rate:** HK$838

### Lease Agreement

**Lessor:** Ricobem Limited

**Lessee:** Favour Link International Limited

**Term of Lease Agreement:** Commencing from the Listing Date and expiring on 31 December 2015 (both days inclusive).

**Rental:** From 2007 to 2010 – Base Rent plus a Variable Rent. The Variable Rent is 50% to 100% of the excess of the aggregate Net Property Income ("NPI") of the five Initial Hotels[46] over the aggregate Base Rent of the Initial Hotels for such year, 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. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

| Year | Base Rents[47] | Rates of Variable Rents |
|---|---|---|
| 2007 | Pro-rated portion of HK$115,000,000, which is for whole year Apportioned to HK$86,820,000 | 100% |
| 2008 | HK$120,000,000 | 70% |
| 2009 | HK$166,200,000 | 60% |
| 2010 | HK$172,900,000 | 50% |

From the Listing Date through 2010, Regal Hotels International Holdings Limited guarantees that the Variable Rent shall be no less than HK$220.0 million in total subject to no disposals of any of the Initial Hotels during the period. From the Listing Date to 31 December 2009, Variable Rent of HK$101.6 million was received. The Minimum Guaranteed Variable Rent remaining amounts to HK$118.4 million for 2010.

From 2011 to 2015, the Market Rent[48] to be determined in accordance with the Lease Agreement subject to a minimum rental guarantee of HK$65,000,000 per annum.

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

47 Base Rent payable by the Lessee for the years 2009 and 2010 is based on the First Supplemental Agreement amending the Lease Agreement for Regal Kowloon Hotel entered into between Ricobem Limited and Favour Link International Limited on 12 February 2010.

48 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.

| | |
|---|---|
| **Remarks:** | Under the Lease Agreement, the Lessee is required to contribute monthly to a Furniture, Fixtures and Equipment ("FF&E") Reserve an amount equivalent to two percent (2%) of the Total Hotel Revenue for each Fiscal Year from the Listing Date until 31 December 2010. |

### Hotel Management Agreement ("HMA")

| | |
|---|---|
| **Hotel Manager:** | Regal Hotels International Limited |
| **Term of HMA:** | Twenty (20) years from the Listing Date |
| **Base Fee:** | One percent (1%) of Gross Revenue[49] (for so long as the Lease Agreement is in subsistence); or<br>Two percent (2%) of Gross Revenue (for other cases during the Operating Term) |
| **Incentive Fee:** | One percent (1%) of the excess of the Adjusted GOP[50] over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or<br>Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term) |

## 4. RETAIL TENANCIES/LICENCE SCHEDULES

### Retail[51]

| | |
|---|---|
| **Retail Area (Lettable):** | Approx. 40,354 sq.ft. (3,749 sq.m.) |
| **Occupied Area (Lettable):** | Approx. 34,290 sq.ft. (3,186 sq.m.) |
| **Vacant Area (Lettable):** | Approx. 6,064 sq.ft. (563 sq.m.) |
| **Occupancy Rate:** | 85.0% |
| **Monthly Base Rent:** | HK$894,431 (all except four monthly tenancies are exclusive of rates, management fees and air conditioning charges; the remaining four monthly tenancies are inclusive of management fees and air conditioning charges, but exclusive of rates) |

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

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

51 The areas quoted exclude shop units 104, 105 and part of 2/F with a total lettable area of 15,648 sq.ft.(1,454 sq.m.) which is used by RKH.

## Tenancy Expiry Profile

| Year | Lettable Area (sq.ft.) | % of Total | Monthly Rental (HK$) | % of Total | No. of Tenancy | % of Total |
|---|---|---|---|---|---|---|
| Monthly | 2,615 | 7.6% | 21,297 | 2.4% | 5 | 20.0% |
| Year Ending 2010 | 11,486 | 33.5% | 372,126 | 41.6% | 11 | 44.0% |
| Year Ending 2011 | 6,578 | 19.2% | 210,258 | 23.5% | 6 | 24.0% |
| Year Ending 2012 | 13,611 | 39.7% | 290,750 | 32.5% | 3 | 12.0% |
| **Total** | **34,290** | **100% (rounded)** | **894,431** | **100% (rounded)** | **25** | **100% (rounded)** |

## Tenancy Duration Profile

| Tenancy Duration | Lettable Area (sq.ft.) | % of Total | Monthly Rental (HK$) | % of Total | No. of Tenancy | % of Total |
|---|---|---|---|---|---|---|
| Monthly | 2,615 | 7.6% | 21,297 | 2.4% | 5 | 20.0% |
| 1 year or less than 1 year | 380 | 1.1% | 76,000 | 8.5% | 1 | 4.0% |
| More than 1 year and up to 2 years | 10,945 | 31.9% | 340,663 | 38.1% | 13 | 52.0% |
| More than 2 year and up to 3 years | 20,350 | 59.3% | 456,471 | 51.0% | 6 | 24.0% |
| **Total** | **34,290** | **100% (rounded)** | **894,431** | **100% (rounded)** | **25** | **100% (rounded)** |

**Latest Expiry Date:** 21 November 2012

**Range of Rent Free Period:** 0 to 3.5 months

**Option to Renew:** One of the tenancies has an option to renew for one year at market rent and within pre-determined range

**Summary of Terms:** The Landlord[52] 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.

## Licences for Light-boxes, Signage Space, Mobile Phone Base Stations, Antennae, etc.

**Number of Licences:** 11

**Monthly Licence Fee:** HK$81,200 per month

**Latest Expiry Date:** 30 June 2011

52 All tenancies are entered by Favour Link International Ltd as Landlord.

## 5. HOTEL MARKET COMMENTARY

Total visitor arrivals to Hong Kong increased by 0.3% on a year-on-year ("y-o-y") basis in 2009 with 29.6 million[53] of these approximately 61% were from Mainland China. Mainland visitors continue to be the largest source of visitors, with just under 18 million[54], representing growth of 6.5% y-o-y. Cumulative increases in other markets were recorded, such as the Middle East (2.0% y-o-y), India (4.6% y-o-y), Indonesia (1.3% y-o-y); whereas the USA, Taiwan, Europe and North Asia reduced when compared to 2008. The increase in total visitor arrivals is mainly driven by the strong economic rebound in the last quarter of 2009 following the H1N1 outbreak earlier in the year and recovery from the downturn.

However, as a result of weak overseas demand, citywide average achieved room rates of all hotels[55] fell by 16%[56] y-o-y in 2009, resulting in a drop in overall RevPAR of 23%[57] y-o-y. The average occupancy of all hotels in Hong Kong dropped by 7% point y-o-y, from 85% to 78%[58] in 2009 and this was due not only to a drop in hotel room demand[59] but also an increase in the available room supply[60]. Hong Kong is resilient compared to other regional destinations[61] and it is expected the air traffic will increase in the coming years which will in turn improve overall hotel performance.

The tourism industry forms a major part of Hong Kong's gross domestic product, with support from the Government enhancing the appeal of Hong Kong as an international convention, exhibition and tourism capital. The Government also has been making continuous investments in infrastructure, as well as tourist and travel related facilities which support Hong Kong as a travel destination and regional hub. They are listed below:

- The expansion of the Hong Kong Convention and Exhibition Centre which was completed in April 2009.
- The planning and commencement of major infrastructure development projects, such as Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge (approved), Hong Kong-Shenzhen Airport Rail Link, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District and Kai Tak Development.

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53 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

54 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

55 All hotels include High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels, Research, Hong Kong Tourism Board.

56 Source: "Visitor Arrivals Statistics – Dec 2008 and 2009", Research, Hong Kong Tourism Board.

57 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Reports Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

58 Source: "Hotel Room Occupancy Report Dec 2009", Research, Hong Kong Tourism Board, Jan 2010.

59 The drop in hotel room demand is resulted from a decrease in the number of overnight visitors as reported in "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

60 Source: "Hotel Room Occupancy Reports Jan - Dec. 2008-2009", Research, Hong Kong Tourism Board, Jan 2009-2010 and "Hong Kong Tourism Board Hotel Classification System – 2008". All hotels available room supplies are calculated based on hotel available room supplies in High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels shown in the monthly "Hotel Room Occupancy Reports" for the relevant periods; Colliers International.

61 Apart from South Korea, where weak won boosted inbound arrivals; Taiwan, due to the opening of a direct link from Mainland China; and also Malaysia, due to the increase in flight capacity to and from Singapore. Source: Korea Tourism Organisation, Tourism Bureau Ministry of Transportation and Communications; Tourism Malaysia and Hong Kong Tourism Board.

- The opening of the new SkyPier at Hong Kong International Airport ("HKIA") providing high-speed ferries connecting to eight ports in the Mainland with a maximum capacity of eight million passengers annually.
- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.
- The planned expansion of HKIA to provide additional aircraft facilities and a third runway.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.
- The development of a world-class Kai Tak Cruise Terminal together with the Ocean Terminal in Tsimshatsui to provide a total of four berths for cruise vessels.
- Fiscal policies to position Hong Kong as a events capital of Asia, with a HK$100 million Mega Events Fund[62].
- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.
- The success of creating a marketing platform - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2010 is expected to improve which will have a positive impact on hotel performance.

RKH is located in the heart of Tsimshatsui East, a traditional tourism and commercial area in the Kowloon district of Hong Kong, with good accessibility through extensive transport links, such as the Mass Transit Railway ("MTR"), taxis and buses connecting to other districts of Hong Kong via the East Tsim Sha Tsui MTR Station and also to Mainland China via Hung Hom MTR Station. Shopping, restaurants, entertainment and recreational facilities are located nearby in such areas as Harbour City (includes four areas namely: Ocean Terminal, Ocean Centre, Gateway Arcade and The Marco Polo Hongkong Hotel Arcade), the Hong Kong Cultural Centre, 1881 Heritage and the Hong Kong Science Museum. Two newly completed retail developments namely iSquare and K11 will add attractiveness of Tsimshatsui for tourists. Over half of the demand for hotel rooms at RKH is from leisure visitors at 55%.

62 Source: The Budget 2009 -2010; and Hong Kong Tourism Board.

RKH also benefits from demand created by businesses located in Tsimshatsui, with commercial business visitors representing 34% of the total demand in 2009.

The geographical customer market segmentation at RKH is made up of Asian visitors (excluding Mainland China, at 44% in 2009) and Mainland China visitors (23% in 2009). Visitors from the Americas, Europe and other regions represented 33% of the total demand.

A new hotel, namely the Hyatt Regency Hotel, Tsim Sha Tsui with 384 rooms opened in 2009[63]. There are planned additions to the supply of hotel rooms in the area in the order of approximately 464[64] in 2010, among them the Hullet House @ 1881 Heritage with 10 rooms, the Bauhinia (TST) Hotel in Observatory Court with 44 rooms, a proposed 262-room hotel on Science Museum Road, a proposed 33-room hotel in Chatham Court and two more proposed hotels on Austin Avenue (15 rooms and 100 rooms, respectively). However, this planned supply is not considered competitors to RKH due to differences in scale, market positioning and target groups. Therefore, such new supply is expected to have a minor impact on the occupancies and average room rates of RKH.

The occupancy rate at RKH has performed better than the High Tariff A hotel market[65]. Based on the long-term outlook for the hotel room demand in Hong Kong, the opening of a new retail development in 2010 known as "The One", the anticipated growth in both leisure and business demand, its location and quality of services, the strong distribution networks both worldwide and in Mainland China, the strong Regal Group representation in Mainland China, and taking into account the proposed upgrading and renovation of 50 guestrooms, modest growth in both occupancy and average room rates is expected.

## 6. ESTIMATED NET PROPERTY YIELD[66]

5.7%

## 7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2009

HK$3,470,000,000

63 Source: "Hotel Supply Situation – as at Dec 2009", Research, Hong Kong Tourism Board Feb 2010.
64 Source: "Hotel Supply Situation – as at Dec 2009", Research, Hong Kong Tourism Board Feb 2010.
65 High Tariff A Hotels as defined by Hong Kong Tourism Board.
66 The Estimated Net Property Yield of RKH is derived from the estimated rental receivable in 2010 divided by the Market Value.

**Property 4**

## REGAL ORIENTAL HOTEL

**30-38 Sa Po Road and**
**Shops 3-11 on G/F including Cockloft of Shops 5-7 and the Whole of 1/F Floor,**
**Po Sing Court, 21-25 Shek Ku Lung Road, 40-42 Sa Po Road and 15-29 Carpenter Road,**
**Kowloon City, Kowloon, Hong Kong**

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

## 1. PROPERTY DESCRIPTION

Regal Oriental Hotel ("ROH") is a 17-storey (including two basement floors) High Tariff B Hotel completed in 1982. An Asset Enhancement Programme ("AEP") was completed in September 2007 and the number of rooms has been increased from 390 to 439.

ROH also comprises nine shop units on the Ground Floor (with three units including cocklofts), and the 1st Floor in an adjacent 14-storey building (Po Sing Court) which was completed in 1967. 1st Floor of Po Sing Court is for back-of-house uses.

The immediate locality of ROH is predominately residential buildings. ROH is facing the site of the former Hong Kong International Airport.

| | |
|---|---|
| **Site Area:** | New Kowloon Inland Lot No. 4917 – 7,980 sq.ft. (741 sq.m.)<br>New Kowloon Inland Lot No. 5754 – 19,343 sq.ft. (1,797 sq.m.) |
| **Gross Floor Area:** | 254,279 sq.ft. (23,623 sq.m.) |
| **Covered Floor Area:** | Approx. 294,200 sq.ft. (27,332 sq.m.) |
| **Town Planning Zoning:** | ROH falls within "Commercial" zone and Po Sing Court falls within "Residential (Group A) 2" zone under Ma Tau Kok Outline Zoning Plan No. S/K10/20 dated 14 November 2008. |

## Hotel Guestroom Configuration

| Room Type | No. of Rooms |
|---|---|
| Standard Room | 48 |
| Superior Room | 60 |
| Deluxe Room | 201 |
| Premier Room | 28 |
| Regal Club Superior Room | 38 |
| Regal Club Deluxe Room | 47 |
| Executive Suite | 3 |
| Royal Suite | 1 |
| Deluxe Suite | 12 |
| Presidential Suite | 1 |
| **Total** | **439** |

Note: The room sizes range from 140 sq.ft. (13 sq.m.) to 431 sq.ft. (40 sq.m.).

## Food and Beverage Outlets

| Floor | Name of Outlet | Type of Facilities | Area (approx.) (sq.ft.) | Area (approx.) (sq.m.) | Seating Capacity Max. No. of Person |
|---|---|---|---|---|---|
| 1/B | Café Neo | Coffee Shop | 3,886 | 361 | 361 |
| 1/B | Regal Patisserie | Cake Shop | N/A | N/A | N/A |
| G/F | China Coast Pub | Bar and Lounge | 3,526 | 328 | 328[67] |
| 2/F | Regal Terrace | Chinese Restaurant | 4,142 | 385 | 385 |
| 14/F | Five Continents Restaurant | Western Fine Dining Restaurant | 3,623 | 337 | 337 |
| 14/F | Sky Lounge | Bar and Lounge | 1,678 | 156 | 156 |
| | | **Total** | **16,855** | **1,567** | **1,567** |

67 Excludes outdoor seatings which are provided on the G/F next to China Coast Pub & Bar.

## Meeting and Banquet Facilities

| Floor | Name of Function Room | Type of Facilities | No. of Rooms | Area (approx.) (sq.ft.) | Area (approx.) (sq.m.) | Seating Capacity Max. No. of Person |
|---|---|---|---|---|---|---|
| 1/F | Ballroom | Banquet/Convention | 1 | 3,710 | 345 | 345 |
| 1/F | Function Rooms | Banquet/Convention | 7 | 3,245 | 302 | 302 |
| 2/F | Function Rooms | Banquet/Convention | 10 | 3,793 | 352 | 352 |
| 3/F | Meeting Room in Club Lounge | Meeting | 1 | 161 | 15 | 15 |
| | | **Total** | **19** | **10,909** | **1,014** | **1,014** |

## Other Facilities

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

## 2. OWNERSHIP AND TENURE

**Registered Owner:**

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

Gala Hotels Limited, via an assignment dated 19 April 1989, registered vide Memorial No. UB4059153.

*Shops 3-11 including Cocklofts of Shops 5, 6, 7 on Ground Floor and Whole of the First Floor of Po Sing Court (41/180th undivided shares of and in New Kowloon Inland Lot No. 4917)*

Gala Hotels Limited, via an assignment dated 19 April 1989, registered vide Memorial No. UB8778225.

**Lease Term:**

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

The Lot is held 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.

*Shops 3-11 including Cocklofts of Shops 5, 6, 7 on Ground Floor and Whole of the First Floor of Po Sing Court (41/180th undivided shares of and in New Kowloon Inland Lot No. 4917)*

The Lot is held 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 Encumbrances

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

- Deed of Grant of Easement with Plan dated 23 June 1981, registered vide Memorial No. UB2111189.
- Modification Letter dated 26 August 1981, registered vide Memorial No. UB2144106.
- Letter of Compliance from District Lands Office Kowloon West to Paliburg Project Management Limited dated 27 July 1982, registered vide Memorial No. UB3990406.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. UB8033164.
- Gala Hotels Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No.07042400850026.

**Shops 3-11 including Cocklofts of Shops 5, 6, 7 on Ground Floor and Whole of the First Floor of Po Sing Court (41/180th undivided shares of and in New Kowloon Inland Lot No. 4917)**

- Management Agreement in favour of The Hong Kong Building and Loan Agency Limited (Agency) and National Investment Company Limited (Manager) dated 28 November 1967, registered vide Memorial No. UB604982.
- Deed of Mutual Covenant dated 12 December 1967, registered vide Memorial No. UB607737.
- Gala Hotels Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850026.

## 3. HOTEL OPERATION

### Hotel Performance in 2009

**Occupancy Rate:** 85%

**Average Room Rate:** HK$610

### Lease Agreement

**Lessor:** Gala Hotels Limited

**Lessee:** Favour Link International Limited

**Term of Lease Agreement:** Commencing from the Listing Date and expiring on 31 December 2015 (both days inclusive).

**Rental:** From 2007 to 2010 – Base Rent plus a Variable Rent. The Variable Rent is 50% to 100% of the excess of the aggregate Net Property Income ("NPI") of the five Initial Hotels[68] over the aggregate Base Rent of the Initial Hotels for such year, 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. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

| Year | Base Rents[69] | Rates of Variable Rents |
|---|---|---|
| 2007 | Pro-rated portion of HK$45,000,0000, which is for whole year Apportioned to HK$33,950,000 | 100% |
| 2008 | HK$50,000,000 | 70% |
| 2009 | HK$65,600,000 | 60% |
| 2010 | HK$68,200,000 | 50% |

[68] Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

[69] Base Rent payable by the Lessee for the years 2009 and 2010 is based on the First Supplemental Agreement amending the Lease Agreement for Regal Oriental Hotel entered into between Gala Hotels Limited and Favour Link International Limited on 12 February 2010.

From the Listing Date through 2010, Regal Hotels International Holdings Limited guarantees that the Variable Rent shall be no less than HK$220.0 million in total subject to no disposals of any of the Initial Hotels during the period. From the Listing Date to 31 December 2009, Variable Rent of HK$101.6 million was received. The Minimum Guaranteed Variable Rent remaining amounts to HK$118.4 million for 2010.

From 2011 to 2015, the Market Rent[70] to be determined in accordance with the Lease Agreement subject to a minimum rental guarantee of HK$30,000,000 per annum.

**Remarks:** Under the Lease Agreement, the Lessee is required to contribute monthly to a Furniture, Fixtures and Equipment ("FF&E") Reserve an amount equivalent to two percent (2%) of the Total Hotel Revenue for each Fiscal Year from the Listing Date until 31 December 2010.

## Hotel Management Agreement ("HMA")

**Hotel Manager:** Regal Hotels International Limited

**Term of HMA:** Twenty (20) years from the Listing Date

**Base Fee:** One percent (1%) of Gross Revenue[71] (for so long as the Lease Agreement is in subsistence); or

Two percent (2%) of Gross Revenue (for other cases during the Operating Term)

**Incentive Fee:** One percent (1%) of the excess of the Adjusted GOP[72] over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or

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

70 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.

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

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

## 4. RETAIL TENANCIES/LICENCE SCHEDULES

### Retail[73]

| | |
|---|---|
| **Retail Area (Lettable):** | Regal Oriental Hotel – Approx. 12,263 sq.ft. (1,139 sq.m.)<br>Po Sing Court – Approx. 4,052 sq.ft. (376 sq.m.) |
| **Occupied Area (Lettable):** | 0 sq.ft. (0 sq.m.) |
| **Vacant Area (Lettable):** | Regal Oriental Hotel – Approx. 12,263 sq.ft. (1,139 sq.m.)<br>Po Sing Court – Approx. 4,052 sq.ft. (376 sq.m.) |
| **Occupancy Rate:** | 0% |
| **Monthly Base Rent:** | HK$0 |
| **Latest Expiry Date:** | N/A |
| **Range of Rent Free Period:** | N/A |
| **Option to Renew:** | N/A |
| **Summary of Terms:** | N/A |

### Licences for Mobile Phone Base Stations and Antennae

| | |
|---|---|
| **Number of Licences:** | 4 |
| **Monthly Licence Fee:** | HK$67,600 |
| **Latest Expiry Date:** | 30 June 2011 |

[73] The areas quoted exclude portions of 1/F, 3/F and 14/F with a total lettable area of 16,327 sq.ft. (1,517 sq.m.) which is used by ROH.

## 5. HOTEL MARKET COMMENTARY

Total visitor arrivals to Hong Kong increased by 0.3% on a year-on-year ("y-o-y") basis in 2009 with 29.6 million[74] of these approximately 61% were from Mainland China. Mainland visitors continue to be the largest source of visitors, with just under 18 million[75], representing growth of 6.5% y-o-y. Cumulative increases in other markets were recorded, such as the Middle East (2.0% y-o-y), India (4.6% y-o-y), Indonesia (1.3% y-o-y); whereas the USA, Taiwan, Europe and North Asia reduced when compared to 2008. The increase in total visitor arrivals is mainly driven by the strong economic rebound in the last quarter of 2009 following the H1N1 outbreak earlier in the year and recovery from the downturn.

However, as a result of weak overseas demand, citywide average achieved room rates of all hotels[76] fell by 16%[77] y-o-y in 2009, resulting in a drop in overall RevPAR of 23%[78] y-o-y. The average occupancy of all hotels in Hong Kong dropped by 7% point y-o-y, from 85% to 78%[79] in 2009 and this was due not only to a drop in hotel room demand[80] but also an increase in the available room supply[81]. Hong Kong is resilient compared to other regional destinations[82] and it is expected the air traffic will increase in the coming years which will in turn improve overall hotel performance.

The tourism industry forms a major part of Hong Kong's gross domestic product, with support from the Government enhancing the appeal of Hong Kong as an international convention, exhibition and tourism capital. The Government also has been making continuous investments in infrastructure, as well as tourist and travel related facilities which support Hong Kong as a travel destination and regional hub. They are listed below:

- The expansion of the Hong Kong Convention and Exhibition Centre which was completed in April 2009.
- The planning and commencement of major infrastructure development projects, such as Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge (approved), Hong Kong-Shenzhen Airport Rail Link, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District and Kai Tak Development.

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74 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

75 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

76 All hotels include High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels, Research, Hong Kong Tourism Board.

77 Source: "Visitor Arrivals Statistics – Dec 2008 and 2009", Research, Hong Kong Tourism Board.

78 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Reports Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

79 Source: "Hotel Room Occupancy Report Dec 2009", Research, Hong Kong Tourism Board, Jan 2010.

80 The drop in hotel room demand is resulted from a decrease in the number of overnight visitors as reported in "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

81 Source: "Hotel Room Occupancy Reports Jan - Dec. 2008-2009", Research, Hong Kong Tourism Board, Jan 2009-2010 and "Hong Kong Tourism Board Hotel Classification System – 2008". All hotels available room supplies are calculated based on hotel available room supplies in High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels shown in the monthly "Hotel Room Occupancy Reports" for the relevant periods; Colliers International.

82 Apart from South Korea, where weak won boosted inbound arrivals; Taiwan, due to the opening of a direct link from Mainland China; and also Malaysia, due to the increase in flight capacity to and from Singapore. Source: Korea Tourism Organisation, Tourism Bureau Ministry of Transportation and Communications; Tourism Malaysia and Hong Kong Tourism Board.

- The opening of the new SkyPier at HKIA providing high-speed ferries connecting to eight ports in the Mainland with a maximum capacity of eight million passengers annually.
- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.
- The planned expansion of HKIA to provide additional aircraft facilities and a third runway.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.
- The development of a world-class Kai Tak Cruise Terminal together with the Ocean Terminal in Tsimshatsui to provide a total of four berths for cruise vessels.
- Fiscal policies to position Hong Kong as a events capital of Asia, with a HK$100 million Mega Events Fund[83].
- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.
- The success of creating a marketing platform - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2010 is expected to improve which will have a positive impact on hotel performance.

ROH is located in Kowloon City and faces the site of the former HKIA at Kai Tak, where the Kai Tak Development scheme, which is scheduled for completion in 2013, will be constructed. The Kai Tak Development scheme will include a new cruise terminal, commercial and residential development, as well as leisure, entertainment, sports/recreational and associated infrastructure facilities. It is expected to stimulate demand for both hotel rooms and F&B facilities.

Future development and extension of the Shatin to Central Link[84] by the MTR Corporation Limited is expected to improve the accessibility of ROH via the proposed Kai Tak Station to both Hong Kong Island, Kowloon (especially Kai Tak area), New Territories and Mainland China.

83 Source: The Budget 2009 -2010; and Hong Kong Tourism Board.

84 Source: MTR's website. Available at www.mtr.com.hk.

ROH is also served by an arterial road – Prince Edward Road East – connecting Kowloon East with the nearby industrial and business districts, such as Kwun Tong, Kowloon Bay, Tsimshatsui and Mongkok in Kowloon. Kwun Tong and Kowloon Bay have transformed from industrial areas into major decentralised office nodes that have enhanced commercial activity in Kowloon East. At ROH, commercial business represented 36% of the demand for hotel rooms in 2009.

Tourist attractions such as the Chi Lin Nunnery, Wong Tai Sin Temple and the Hau Wong Temple are located nearby, along with nearby shopping, restaurant and entertainment facilities, as well as the major retail/leisure facility of Festival Walk at Kowloon Tong Mass Transit Railway Station. The demand for hotel rooms by leisure visitors represented 64% of the total in 2009.

The geographical customer market segmentation at ROH is made up of Asian visitors (excluding Mainland China, at 58% in 2009) and Mainland Chinese visitors (25% in 2009). Visitors from the Americas, Europe and other regions represented 17% of the total demand.

A new hotel, the Harbour Plaza 8 Degrees Hotel with 704 rooms[85] opened in 2009 may create pressures on both the average room rates and occupancy rate of ROH in the short term. On the other hand, as there are no planned projects in the catchment area of ROH in the near future, competition is expected to be limited.

The occupancy of ROH has, since 2004, always been able to outperform High Tariff B hotels[86] with an average occupancy rate of 90% over the past six years. Based on the long-term outlook for hotel room demand in Hong Kong and future developments in the area, the anticipated growth in both leisure and business demand, the hotel's location and quality of services, strong distribution networks both worldwide and in Mainland China, also the strong Regal Group representation in Mainland China, and taking into account the proposed upgrade/renovation of lift lobby, corridor and function rooms on the second floor, modest and strong growth in both occupancy and average room rates is expected.

## 6. ESTIMATED NET PROPERTY YIELD[87]

6.0%

## 7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2009

HK$1,280,000,000

85 Source: "Hotel Supply Situation - as at Dec 2009", Research, Hong Kong Tourism Board.

86 High Tariff B hotels as defined by Hong Kong Tourism Board.

87 The Estimated Net Property Yield of ROH is derived from the estimated rental receivable in 2010 divided by the Market Value.

Property 5

## REGAL RIVERSIDE HOTEL

**34-36 Tai Chung Kiu Road,**
**Shatin, New Territories, Hong Kong**

Sha Tin Town Lot No. 160

## 1. PROPERTY DESCRIPTION

Regal Riverside Hotel ("RRH") is a 20-storey (including two basement floors) High Tariff B Hotel completed 1986. Two Asset Enhancement Programmes ("AEP") were completed in October 2007 and June 2009 and the number of rooms has been increased from 830 to 1,138.

The immediate locality of RRH is mainly residential buildings with some shopping facilities. RRH overlooks the Shing Mun River.

| | |
|---|---|
| **Site Area:** | 53,346 sq.ft. (4,956 sq.m.) |
| **Gross Floor Area:** | 642,263 sq.ft.(59,668 sq.m.) |
| **Covered Floor Area:** | Approx. 743,500 sq.ft.(69,073 sq.m.) |
| **Town Planning Zoning:** | RRH falls within "Commercial" zone under Sha Tin Outline Zoning Plan No. S/ST/23 dated June 2007. |

### Hotel Guestroom Configuration

| **Room Type** | **No. of Rooms** |
|---|---|
| Standard Room | 184 |
| Superior Room | 249 |
| Deluxe Room | 225 |
| Premier Room | 41 |
| Deluxe Suite | 17 |
| Regal Club Superior Room | 194 |
| Regal Club Deluxe Room | 47 |
| Executive Suite | 39 |
| Royal Suite | 1 |
| Presidential Suite | 1 |
| Family Room | 30 |
| Quadruple Room | 60 |
| Triple Room | 50 |
| **Total** | **1,138** |

Note: The room sizes range from 108 sq.ft. (10 sq.m.) to 1,561 sq.ft. (145 sq.m.).

### Food and Beverage Outlets

| Floor | Name of Outlet | Type of Facilities | Seating Capacity Area (approx.) (sq.ft.) | (sq.m.) | Max. No. of Person |
|---|---|---|---|---|---|
| G/F | Vi | Vietnam Restaurant | 1,605 | 149 | 149 |
| G/F | Moon River | 24 hour Restaurant | 1,042 | 97 | 97 |
| G/F | Dragon Inn | Chinese Restaurant | 1,270 | 118 | 118 |
| G/F | Avanti Ristorante | Italian Restaurant | 1,661 | 154 | 154 |
| | | Outside Seating[88] | 788 | 73 | 73 |
| G/F | Scene Bar | Bar and Lounge | 2,504 | 233 | 233 |
| G/F | Regal Patisserie | Cake Shop | N/A | N/A | N/A |
| 1/F | Carnival Bar | Bar and Lounge | 3,074 | 286 | 286 |
| 1/F | Aji Bou Izakaya | Japanese Restaurant | 3,624 | 337 | 337 |
| 2/F | Regal Seafood Restaurant | Chinese Restaurant | 7,811 | 726 | 726 |
| 2/F | Regal Court | Chinese Restaurant | 2,212 | 206 | 206 |
| 3/F | L'Eau Restaurant | Coffee Shop | 4,408 | 409 | 409 |
| | | **Total** | **29,999** | **2,788** | **2,788** |

### Meeting and Banquet Facilities

| Floor | Name of Function Room | Type of Facilities | No. of Rooms | Seating Capacity Area (approx.) (sq.ft.) | (sq.m.) | Max. No. of Person |
|---|---|---|---|---|---|---|
| 1/F | Ballroom | Banquet/Convention | 1 | 5,104 | 474 | 474 |
| 1/F | Meeting Rooms | Banquet/Convention | 2 | 1,160 | 108 | 108 |
| 1/F | Function Room | Meeting and Convention | 1 | 5,575 | 518 | 518 |
| 2/F | Meeting Room | Banquet/Convention | 1 | 769 | 71 | 71 |
| 2/F | Meeting Rooms | Banquet/Convention | 4 | 2,665 | 248 | 248 |
| 3/F | Meeting Rooms | Banquet/Convention | 4 | 3,367 | 313 | 313 |
| 3/F | Meeting Room | Banquet/Convention | 1 | 453 | 42 | 42 |
| 15/F | Meeting Room in Club Lounge | Meeting and Convention | 1 | 151 | 14 | 14 |
| | | **Total** | **15** | **19,244** | **1,788** | **1,788** |

### 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.

[88] Outside seating areas are provided on the G/F and situated next to Avanti and Scene Bar.

## 2. OWNERSHIP AND TENURE

| | |
|---|---|
| **Registered Owner:** | Regal Riverside Hotel Limited, via an assignment dated 24 August 1995, registered vide Memorial No. ST829937. |
| **Lease Term:** | The Lot is held 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 Encumbrances

- Modification Letter dated 1 June 1982, registered vide Memorial No. ST211142.
- Modification Letter dated 28 August 1986, registered vide Memorial No. ST353344.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. ST1145794.
- Regal River Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850040.
- Modification Letter dated 14 November 2007, registered vide Memorial No. 07111601000553.

## 3. HOTEL OPERATION

### Hotel Performance in 2009

**Occupancy Rate:** 83%

**Average Room Rate:** HK$452

### Lease Agreement

**Lessor:** Regal Riverside Hotel Limited

**Lessee:** Favour Link International Limited

**Term of Lease Agreement:** Commencing from the Listing Date and expiring on 31 December 2015 (both days inclusive).

**Rental:** From 2007 to 2010 – Base Rent plus a Variable Rent. The Variable Rent is 50% to 100% of the excess of the aggregate Net Property Income ("NPI") of the five Initial Hotels[89] over the aggregate Base Rent of the Initial Hotels for such year, 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. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

| Year | Base Rents[90] | Rates of Variable Rents |
|---|---|---|
| 2007 | Pro-rated portion of HK$90,000,000, which is for whole year Apportioned to HK$68,000,000 | 100% |
| 2008 | HK$115,000,000 | 70% |
| 2009 | HK$126,800,000 | 60% |
| 2010 | HK$131,800,000 | 50% |

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

90 Base Rent payable by the Lessee for the years 2009 and 2010 is based on the First Supplemental Agreement amending the Lease Agreement for Regal Riverside Hotel entered into between Regal Riverside Hotel Limited and Favour Link International Limited on 12 February 2010.

From the Listing Date through 2010, Regal Hotels International Holdings Limited guarantees that the Variable Rent shall be no less than HK$220.0 million in total subject to no disposals of any of the Initial Hotels during the period. From the Listing Date to 31 December 2009, Variable Rent of HK$101.6 million was received. The Minimum Guaranteed Variable Rent remaining amounts to HK$118.4 million for 2010.

From 2011 to 2015, the Market Rent[91] to be determined in accordance with the Lease Agreement subject to a minimum rental guarantee of HK$70,000,000 per annum.

**Remarks:** Under the Lease Agreement, the Lessee is required to contribute monthly to a Furniture, Fixtures and Equipment ("FF&E") Reserve an amount equivalent to two percent (2%) of the Total Hotel Revenue for each Fiscal Year from the Listing Date until 31 December 2010.

## Hotel Management Agreement ("HMA")

**Hotel Manager:** Regal Hotels International Limited

**Term of HMA:** Twenty (20) years from the Listing Date

**Base Fee:** One percent (1%) of Gross Revenue[92] (for so long as the Lease Agreement is in subsistence); or

Two percent (2%) of Gross Revenue (for other cases during the Operating Term)

**Incentive Fee:** One percent (1%) of the excess of the Adjusted GOP[93] over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or

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

91 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.

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

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

## 4. RETAIL TENANCIES/LICENSE SCHEDULES

**Retail**[94]

**Retail Area (Lettable):** Approx. 3,663 sq.ft. (340 sq.m.)

**Occupied Area (Lettable):** Approx. 3,663 sq.ft. (340 sq.m.)

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

**Occupancy Rate:** 100%

**Monthly Base Rent:** HK$99,820 (all are exclusive of rates, management fees and air conditioning charges)

### Tenancy Expiry Profile

| Year | Lettable Area (sq.ft.) | % of Total | Monthly Rental (HK$) | % of Total | No. of Tenancy | % of Total |
|---|---|---|---|---|---|---|
| Monthly | 966 | 26.4% | 10,000 | 10.0% | 1 | 33.3% |
| Year Ending 2010 | 724 | 19.8% | 39,820 | 39.9% | 1 | 33.3% |
| Year Ending 2011 | N/A | N/A | N/A | N/A | N/A | N/A |
| Year Ending 2012 | 1,973 | 53.9% | 50,000 | 50.1% | 1 | 33.3% |
| **Total** | **3,663** | **100% (rounded)** | **99,820** | **100% (rounded)** | **3** | **100% (rounded)** |

94 The areas quoted exclude Outlets 1 to 5, 7 to 10 with a total lettable area of 18,486 sq.ft (1,717 sq.m.) which is used by RRH.

## Tenancy Duration Profile

| Tenancy Duration | Lettable Area (sq.ft.) | % of Total | Monthly Rental (HK$) | % of Total | No. of Tenancy | % of Total |
|---|---|---|---|---|---|---|
| Monthly | 966 | 26.4% | 10,000 | 10.0% | 1 | 33.3% |
| 1 year or less than 1 year | N/A | N/A | N/A | N/A | N/A | N/A |
| More than 1 year and up to 2 years | 724 | 19.8% | 39,820 | 39.9% | 1 | 33.3% |
| More than 2 year and up to 3 years | 1,973 | 53.9% | 50,000 | 50.1% | 1 | 33.3% |
| **Total** | **3,663** | **100% (rounded)** | **99,820** | **100% (rounded)** | **3** | **100% (rounded)** |

**Latest Expiry Date:** 14 November 2012

**Range of Rent Free Period:** 0 to 1 month

**Option to Renew:** N/A

**Summary of Terms:** The Landlord[95] 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.

## Licenses for Mobile Phone Base Stations/Antennae

**Number of Licenses:** 5

**Monthly Licence Fee:** HK$200,000 per month

**Latest Expiry Date:** 31 March 2011

[95] All tenancies are entered by Favour Link International Ltd as Landlord.

## 5. HOTEL MARKET COMMENTARY

Total visitor arrivals to Hong Kong increased by 0.3% on a year-on-year ("y-o-y") basis in 2009 with 29.6 million[96] of these approximately 61% were from Mainland China. Mainland visitors continue to be the largest source of visitors, with just under 18 million[97], representing growth of 6.5% y-o-y. Cumulative increases in other markets were recorded, such as the Middle East (2.0% y-o-y), India (4.6% y-o-y), Indonesia (1.3% y-o-y); whereas the USA, Taiwan, Europe and North Asia reduced when compared to 2008. The increase in total visitor arrivals is mainly driven by the strong economic rebound in the last quarter of 2009 following the H1N1 outbreak earlier in the year and recovery from the downturn.

However, as a result of weak overseas demand, citywide average achieved room rates of all hotels[98] fell by 16%[99] y-o-y in 2009, resulting in a drop in overall RevPAR of 23%[100] y-o-y. The average occupancy of all hotels in Hong Kong dropped by 7% point y-o-y, from 85% to 78%[101] in 2009 and this was due not only to a drop in hotel room demand[102] but also an increase in the available room supply[103]. Hong Kong is resilient compared to other regional destinations[104] and it is expected the air traffic will increase in the coming years which will in turn improve overall hotel performance.

The tourism industry forms a major part of Hong Kong's gross domestic product, with support from the Government enhancing the appeal of Hong Kong as an international convention, exhibition and tourism capital. The Government also has been making continuous investments in infrastructure, as well as tourist and travel related facilities which support Hong Kong as a travel destination and regional hub. They are listed below:

- The expansion of the Hong Kong Convention and Exhibition Centre which was completed in April 2009.
- The planning and commencement of major infrastructure development projects, such as Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge (approved), Hong Kong-Shenzhen Airport Rail Link, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District and Kai Tak Development.

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96 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

97 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

98 All hotels include High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels, Research, Hong Kong Tourism Board.

99 Source: "Visitor Arrivals Statistics – Dec 2008 and 2009", Research, Hong Kong Tourism Board.

100 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Reports Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

101 Source: "Hotel Room Occupancy Report Dec 2009", Research, Hong Kong Tourism Board, Jan 2010.

102 The drop in hotel room demand is resulted from a decrease in the number of overnight visitors as reported in "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

103 Source: "Hotel Room Occupancy Reports Jan - Dec. 2008-2009", Research, Hong Kong Tourism Board, Jan 2009-2010 and "Hong Kong Tourism Board Hotel Classification System – 2008". All hotels available room supplies are calculated based on hotel available room supplies in High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels shown in the monthly "Hotel Room Occupancy Reports" for the relevant periods; Colliers International.

104 Apart from South Korea, where weak won boosted inbound arrivals; Taiwan, due to the opening of a direct link from Mainland China; and also Malaysia, due to the increase in flight capacity to and from Singapore. Source: Korea Tourism Organisation, Tourism Bureau Ministry of Transportation and Communications; Tourism Malaysia and Hong Kong Tourism Board.

- The opening of the new SkyPier at Hong Kong International Airport ("HKIA") providing high-speed ferries connecting to eight ports in the Mainland with a maximum capacity of eight million passengers annually.

- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.

- The planned expansion of HKIA to provide additional aircraft facilities and a third runway.

- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.

- The development of a world-class Kai Tak Cruise Terminal together with the Ocean Terminal in Tsimshatsui to provide a total of four berths for cruise vessels.

- Fiscal policies to position Hong Kong as a events capital of Asia, with a HK$100 million Mega Events Fund[105].

- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.

- The success of creating a marketing platform - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2010 is expected to improve which will have a positive impact on hotel performance.

RRH is located in Shatin and overlooks the Shing Mun River. It is situated close to Shatin Mass Transit Railway Station which provides good accessibility to both Kowloon and Mainland China.

Shopping and restaurants facilities are located at nearby New Town Plaza. Sports and recreational facilities are available at Shatin Racecourse and the Shing Mun River nearby.

As mentioned earlier, future development of the Shatin to Central Link is expected to improve the accessibility of RRH to both Hong Kong Island, Kowloon, New Territories and Mainland China.

105 Source: The Budget 2009 -2010; and Hong Kong Tourism Board.

RRH benefits from strong demand from leisure due to its strategic location close to the Mainland border. The majority of the demand for rooms at RRH is from leisure visitors (74% in 2009) and business visitors (26% in 2009).

The geographical customer market segmentation at RRH is made up of Mainland China visitors (65% in 2009), Asian visitors (excluding visitors from Mainland China) (27% in 2009). Visitors from the Americas, Europe and other regions represented 8% of the total demand.

A new hotel, namely the Hyatt Regency Hotel, Shatin with 567[106] rooms in Shatin opened in 2009. It is expected that the increase in the number of rooms may have some impact on both the occupancies and the average room rates in short term. However, as there is only one planned addition to the supply of hotel rooms in the catchment area (a proposed hotel with 588 rooms[107] at the junction of On Lai Street and On Ping Street, scheduled to be opened in 2012), competition is expected to be limited. Although details regarding this proposed hotel are yet to be released, it is expected the impact on RRH would only be minor.

The occupancy of RRH has always been able to outperform the High Tariff B hotels[108] with an average occupancy rate of approximately 90% over the past six years. Taking into account the addition of 308 rooms in RRH, it is expected there will be marginal growth on both the occupancy rate and the average room rate in 2010. Based on the long term outlook for hotel room demand in Hong Kong, the anticipated growth in both leisure and business demand; its central location in the New Territories; strong distribution networks both worldwide and Mainland China, the strong Regal Group presentation in Mainland China and taking into account the proposed upgrade/renovation of the guest floors and the restaurants, etc., modest to strong growth in both occupancy and average rates is expected in the medium and long term.

## 6. ESTIMATED NET PROPERTY YIELD[109]

6.5%

## 7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2009

HK$2,380,000,000

106 Source: "Hotel Supply Situation – as at Dec 2009", Research, Hong Kong Tourism Board Feb 2010.

107 Source: "Hotel Supply Situation – as at Dec 2009", Research, Hong Kong Tourism Board Feb 2010.

108 High Tariff B hotels as defined by Hong Kong Tourism Board.

109 The Estimated Net Property Yield of RRH is derived from the estimated rental receivable in 2010 divided by the Market Value.

**Property 6**

## REGAL iCLUB BUILDING

**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, Wanchai, Hong Kong**

3,062/3,637th undivided shares of and in the Remaining Portion and the Sub-Section 1 of Section F, and the Remaining Portion and the Sub-Section 1 of Section G, of Inland Lot No. 2769

## 1. PROPERTY DESCRIPTION

Regal iClub Building comprises a major portion of the Ground Floor, 22 entire floors (from the 5th Floor and upwards of which the 13th, 14th and 24th are omitted), a flat roof of the 3rd Floor and upper roof, together with the eastern and western elevations of external walls and architectural feature at roof top of a 26-storey composite building with hotel and office usages completed in 1997. The immediate locality is predominantly office buildings.

An Asset Enhancement Programme ("AEP") was undertaken by Paliburg Development BVI Holdings Limited and was completed in 2009. AEP involved a conversion of nine office floors into hotel usage with a total of 50 rooms. A Hotel Licence was obtained on 24 December 2009 and the hotel, Regal iClub Hotel, started operation on 25 December 2009.

The 50 rooms hotel portion includes a portion of the Ground Floor, the whole of the 5th to 12th Floors and the 15th Floor of the building. Portion of the Ground Floor comprises the hotel lobby and iCafé, a restaurant operated by Regal iClub Hotel. The mechanical floor is situated on the 3rd Floor. The office portion comprises 13 floors and is situated on the 16th to 23rd Floors and the 25th to 29th Floors.

The Financial Secretary Incorporated, the property agent of the Government of HKSAR, owns the remaining portion of G/F, 1/F and 2/F of the building, which are not part of Regal iClub Building.

| | |
|---|---|
| **Site Area:** | 4,448 sq.ft. (413 sq.m.) |
| **Gross Floor Area:** | 58,196 sq.ft. (5,407 sq.m.) |
| **Covered Floor Area:** | Approx. 59,600 sq.ft. (5,537 sq.m.) |
| **Town Planning Zoning:** | Regal iClub Building falls within "Commercial/Residential" zone under Wan Chai Outline Zoning Plan No. S/H5/25 dated 16 November 2007. |

### Hotel Guestroom Configuration

| Room Type | No. of Rooms |
|---|---|
| iSelect | 16 |
| iPlus | 16 |
| iBusiness | 16 |
| iSuite | 2 |
| **Total** | **50** |

Note: The room sizes range from 161 sq.ft. (15 sq.m.) to 474 sq.ft. (44 sq.m.)

### Food and Beverage Outlets

| | | | Seating Capacity | | |
|---|---|---|---|---|---|
| | | | Area (approx.) | | Max. No. |
| **Floor** | **Name of Outlet** | **Type of Facilities** | **(sq.ft.)** | **(sq.m.)** | **of Person** |
| G/F | iCafé | Western Restaurant | 594 | 55 | 55 |
| | | **Total** | **594** | **55** | **55** |

### Other Facilities

Other facilities include a function room and a hotel office.

## 2. OWNERSHIP AND TENURE

| | |
|---|---|
| **Registered Owner:** | Sonnix Limited, via an assignment dated 21 August 1992, registered vide Memorial No. UB5430069. |
| **Lease Term:** | The Lot is held under Government Lease for a term of 99 years commencing on 25 May 1929 and renewable for a further term of 99 years. |

### Major Registered Encumbrances

- Licence in favour of Sonnix Limited by the District Lands Officer/Hong Kong West for and on behalf of the Governor of Hong Kong dated 22 November 1994, registered vide Memorial No.UB6186840.
- Statutory Declaration of Liu Yee Man John dated 17 April 1997, registered vide Memorial No. UB7020522.
- Occupation Permit No. H73/97 dated 20 November 1997, registered vide Memorial No. UB7355437.
- Deed of Mutual Covenant and Management Agreement in favour of Paliburg Estate Management Limited dated 28 November 1997, registered vide UB7376631.
- Mortgage in favour of The Bank of East Asia, Limited dated 28 February 2005, registered vide Memorial No.05031001490187.
- Supplement to Security Documents in favour of The Bank of East Asia, Limited dated 19 July 2006, registered vide Memorial No. 06080801050066.
- Second Supplemental to Security Documents in favour of The Bank of East Asia, Limited dated 13 February 2008, registered vide Memorial No. 08030402000161.
- Supplemental Deed of Mutual Covenant and Management Agreement in favour of Paliburg Estate Management Limited dated 19 October 2009, registered vide Memorial No.09103001380118.
- Debenture and Mortgage in favour of The Bank of East Asia, Limited dated 20 October 2009 is under deeds of pending registration vide Memorial No. 09111702710145. (Note: registration withheld)

## 3. LEASE AGREEMENT

| | |
|---|---|
| **Lessor:** | Sonnix Limited |
| **Lessee:** | Real Charm Investment Limited |
| **Term of Lease Agreement:** | Commencing from the Effective Date[110] and expiring on 31 December 2010 (both days inclusive) |
| **Rental:** | The monthly rent is HK$2,000,000 per calendar month for Regal iClub Building (exclusive of management expenses, rates, Government Rent and other sums[111] payable by the Lessee). |
| **Remarks:** | The Lessor shall have the right to terminate the Lease Agreement at any time during the Term of the Lease Agreement by giving three (3) months' prior written notice to the Lessee without compensation to the Lessee and the Lessee shall not have any claim whatsoever against the Lessor for such early determination of this Lease. |

## 4. HOTEL OPERATION

### Hotel Performance in 2009

Regal iClub Hotel was opened on 25 December 2009 and therefore there was no relevant history of hotel performance available.

### Hotel Management Agreement ("HMA")

| | |
|---|---|
| **Hotel Manager:** | Regal Hotels International Limited |
| **Term of HMA:** | From the Effective Date[112], and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of 31 December 2010 (the "Operating Term").<br><br>In the event that the Lease Agreement is extended for a term beyond the Operating Term, the HMA shall be extended on the same terms and conditions for a period to expire on the date on which the extended term of the Lease Agreement shall expire provided that neither the Hotel Manager nor the Lessee has committed an event of default under the HMA and that Regal Portfolio Management Limited (in its capacity as manager of Regal REIT) has approved such extension and the terms and conditions of such extension.<br><br>Notwithstanding anything herein contained to the contrary, the HMA shall be automatically terminated upon the expiry or earlier termination of the Lease Agreement. |
| **Management Fee:** | Five percent (5%) of Gross Revenue[113], subject to a minimum amount of HK$80,000 per month. |

110 According to the Lease Agreement, "Effective Date" means the day following the completion date of the Sale and Purchase Agreement dated 20 October 2009.

111 According to the Lease Agreement, Other Sums refers to "Expenses" include all costs, claims, expenses, taxes, damages and liabilities but exclude amounts paid by the Lessor to any Tenant/Licensee by way of refund of tenancy/security deposits.

112 According to the Hotel Management Agreement, "Effective Date" means the date on which the Hotel Licence is issued.

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

## 5. RETAIL/OFFICE TENANCIES

### Retail

The retail spaces on Ground Floor with a total lettable area of 1,278 sq.ft. (119 sq.m.) are used by Regal iClub Hotel.

### Office

**Office Area (gross area):** 35,984 sq.ft. (3,343 sq.m.)

**Occupied Area (gross area):** 19,760 sq.ft. (1,836 sq.m.)

**Vacant Area (gross area):** 16,224 sq.ft. (1,507 sq.m.)

**Occupancy Rate:** 55.0%

**Monthly Base Rent:** HK$380,801 (all tenancies except three are exclusive of rates, management fees and air conditioning charges; the three remaining tenancies are inclusive of rates, management fees and air conditioning charges.)

### Tenancy Expiry Profile

| Year | Gross Area (sq.ft.) | % of Total | Monthly Rental (HK$) | % of Total | No. of Tenancy | % of Total |
|---|---|---|---|---|---|---|
| Monthly | 1,406 | 7.1% | 12,839 | 3.4% | 2 | 7.4% |
| Year Ending 2010 | 14,774 | 74.8% | 290,370 | 76.3% | 19 | 70.4% |
| Year Ending 2011 | 3,580 | 18.1% | 77,592 | 20.4% | 6 | 22.2% |
| **Total** | **19,760** | **100% (rounded)** | **380,801** | **100% (rounded)** | **27** | **100% (rounded)** |

### Tenancy Duration Profile

| Tenancy Duration | Gross Area (sq.ft.) | % of Total | Monthly Rental (HK$) | % of Total | No. of Tenancy | % of Total |
|---|---|---|---|---|---|---|
| Monthly | 1,406 | 7.1% | 12,839 | 3.4% | 2 | 7.4% |
| 1 year or less than 1 year | 13,918 | 70.4% | 43,824 | 11.5% | 4 | 14.8% |
| More than 1 year and up to 2 years | 4,436 | 22.4% | 324,138 | 85.1% | 21 | 77.8% |
| **Total** | **19,760** | **100% (rounded)** | **380,801** | **100% (rounded)** | **27** | **100% (rounded)** |

**Latest Expiry Date:** 15 September 2011

**Range of Rent Free Period:** 1 to 3 months

**Option to Renew:** One of the tenancies has an option for one year at market rent.

**Summary of Terms:** The Landlord[114] is to be responsible for payment of Government Rent and the structural and external repairs whilst the Tenant is to be responsible for the internal repairs of the Property.

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114 All tenancies are entered by Sonnix Limited and/or Real Charm Investment Limited as Landlord.

## 6. HOTEL MARKET COMMENTARY

Total visitor arrivals to Hong Kong increased by 0.3% on a year-on-year ("y-o-y") basis in 2009 with 29.6 million[115] of these approximately 61% were from Mainland China. Mainland visitors continue to be the largest source of visitors, with just under 18 million[116], representing growth of 6.5% y-o-y. Cumulative increases in other markets were recorded, such as the Middle East (2.0% y-o-y), India (4.6% y-o-y), Indonesia (1.3% y-o-y); whereas the USA, Taiwan, Europe and North Asia reduced when compared to 2008. The increase in total visitor arrivals is mainly driven by the strong economic rebound in the last quarter of 2009 following the H1N1 outbreak earlier in the year and recovery from the downturn.

However, as a result of weak overseas demand, citywide average achieved room rates of all hotels[117] fell by 16%[118] y-o-y in 2009, resulting in a drop in overall RevPAR of 23%[119] y-o-y. The average occupancy of all hotels in Hong Kong dropped by 7% point y-o-y, from 85% to 78%[120] in 2009 and this was due not only to a drop in hotel room demand[121] but also an increase in the available room supply[122]. Hong Kong is resilient compared to other regional destinations[123] and it is expected the air traffic will increase in the coming years which will in turn improve overall hotel performance.

The tourism industry forms a major part of Hong Kong's gross domestic product, with support from the Government enhancing the appeal of Hong Kong as an international convention, exhibition and tourism capital. The Government also has been making continuous investments in infrastructure, as well as tourist and travel related facilities which support Hong Kong as a travel destination and regional hub. They are listed below:

- The expansion of the Hong Kong Convention and Exhibition Centre which was completed in April 2009.
- The planning and commencement of major infrastructure development projects, such as Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge (approved), Hong Kong-Shenzhen Airport Rail Link, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District and Kai Tak Development.
- The opening of the new SkyPier at Hong Kong International Airport ("HKIA") providing high-speed ferries connecting to eight ports in the Mainland with a maximum capacity of eight million passengers annually.

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115 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

116 Source: "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board.

117 All hotels include High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels, Research, Hong Kong Tourism Board.

118 Source: "Visitor Arrivals Statistics – Dec 2008 and 2009", Research, Hong Kong Tourism Board.

119 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Reports Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

120 Source: "Hotel Room Occupancy Report Dec 2009", Research, Hong Kong Tourism Board, Jan 2010.

121 The drop in hotel room demand is resulted from a decrease in the number of overnight visitors as reported in "Visitor Arrivals Statistics – Dec 2009", Research, Hong Kong Tourism Board, Jan 2010 and Colliers International.

122 Source: "Hotel Room Occupancy Reports Jan - Dec. 2008-2009", Research, Hong Kong Tourism Board, Jan 2009-2010 and "Hong Kong Tourism Board Hotel Classification System – 2008". All hotels available room supplies are calculated based on hotel available room supplies in High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels shown in the monthly "Hotel Room Occupancy Reports" for the relevant periods; Colliers International.

- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.
- The planned expansion of HKIA to provide additional aircraft facilities and a third runway.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.
- The development of a world-class Kai Tak Cruise Terminal together with the Ocean Terminal in Tsimshatsui to provide a total of four berths for cruise vessels.
- Fiscal policies to position Hong Kong as a events capital of Asia, with a HK$100 million Mega Events Fund[124].
- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.
- The success of creating a marketing platform - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2010 is expected to improve which will have a positive impact on hotel performance.

Regal iClub Building is located in Wanchai and has good accessibility via extensive transport links, namely the Mass Transit Railway ("MTR"), taxis, buses and trams, as well as roads. The Wan Chai MTR Station is just a few minutes' walk from Regal iClub Building.

Regal iClub Building is located within easy reach of such shopping and entertainment facilities as Times Square and the Sogo Department Store in the nearby Causeway Bay District, and Pacific Place Shopping Mall in Admiralty District.

New hotels, namely the WiFi Boutique Hotel with 52 rooms and Butterfly Morrison with 83 rooms, opened in 2009[125]. Those planned additions of approximately 298 rooms include the proposed 40-room at 55 - 57 Hennessy Road and 258-room hotel at 38 Bowrington Road, both scheduled to be opened in 2010. Further planned additions include a proposed 81-room hotel at 459 - 461 Lockhart Road, scheduled to be opened in 2011; a proposed 49-room hotel at 235 - 239 Hennessy Road and the proposed 75-room hotel at 135-139 Thomson Road, both scheduled to be opened in 2012.

[123] Apart from South Korea, where weak won boosted inbound arrivals; Taiwan, due to the opening of a direct link from Mainland China; and also Malaysia, due to the increase in flight capacity to and from Singapore. Source: Korea Tourism Organisation, Tourism Bureau Ministry of Transportation and Communications; Tourism Malaysia and Hong Kong Tourism Board.

[124] Source: The Budget 2009 -2010; and Hong Kong Tourism Board.

[125] Source: "Hotel Supply Situation – as at Dec 2009", Research, Hong Kong Tourism Board Feb 2010.

However, in our opinion, these new hotels are unlikely to apply significant pressure on Regal iClub Hotel's occupancies and room rates due to differences in target groups and market positioning.

Regal iClub Hotel is expected to enjoy strong demand for rooms from among business visitors, traders and exhibitors due to its location close to the Hong Kong Convention and Exhibition Centre, as well as from leisure visitors.

Regal iClub Hotel commenced operation in December 2009. From our experience, it will take several years for a newly opened hotel to reach stabilised level of occupancy. Based on the above reasons, it is expected that Regal iClub Hotel will enjoy relatively strong growth in both occupancy and average room rates in the early years stabilising in later years.

## 7. OFFICE MARKET COMMENTARY

General sentiment in the office leasing market was positive in the last quarter of 2009, although the anticipated net increase in floor requirements was lower than expected and the subsequent pace of rental growth actually slowed. Overall, the average Grade B[126] office rental rate for Wanchai and Causeway Bay saw an increase of 7.2%[127] quarter-on-quarter as at the last quarter.

On the supply front, no major new developments were completed in 2009 and in 2010. The major competitors are the CNT Tower and The Emperor Group Centre. Renovation of the existing China Resources Building in Wanchai is also underway to make it environmental friendly.

Looking ahead for 2010, Grade B office buildings are expected to record an increase in occupancy levels. With strengthening business confidence and the anticipated recovery of the external trade environment, the overall office market is expected to experience reasonable rental growth in 2010. The office portion of this property should appeal to small-to-medium size enterprises.

## 8. ESTIMATED NET PROPERTY YIELD[128]

5.0%

## 9. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2009

HK$480,000,000

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126 Grade B as defined by Rating and Valuation Department, The Government of the Hong Kong Special Administrative Region of the People's Republic of China ("RVD").

127 Provisional figures for average rents of private office by Grade B by Wanchai/Causeway Bay. Source: "Hong Kong Property Review – Monthly Supplement February 2010", RVD.

128 The Estimated Net Property Yield of Regal iClub Building is derived from the estimated rental receivable in 2010 divided by the Market Value.

# SUMMARY OF PROPERTIES

*As at 31st December, 2009*

## PROPERTIES FOR INVESTMENT

| | Description | Use | Lease | Gross Floor Area *(sq.ft.)* | Covered Floor Area *(sq.ft.)* | Percentage interest attributable to Regal REIT |
|---|---|---|---|---|---|---|
| (1) | Regal Airport Hotel<br>9 Cheong Tat Road<br>Hong Kong International Airport<br>Chek Lap Kok<br>New Territories<br>Hong Kong | Hotel | Medium term | 774,880 | 897,900 | 100 |
| (2) | Regal Hongkong Hotel<br>88 Yee Wo Street<br>Causeway Bay<br>Hong Kong | Hotel | Long term | 269,988 | 343,900 | 100 |
| (3) | Regal Kowloon Hotel<br>71 Mody Road<br>Tsimshatsui<br>Kowloon<br>Hong Kong | Hotel | Long term | 341,714 | 468,400 | 100 |
| (4) | Regal Oriental Hotel<br>30-38 Sa Po Road<br>and Shops 3-11 on G/F<br>including Cockloft of Shops 5-7<br>and whole 1/F<br>Po Sing Court<br>21-25 Shek Ku Lung Road<br>40-42 Sa Po Road<br>15-29 Carpenter Road<br>Kowloon City<br>Kowloon<br>Hong Kong | Hotel | Medium term | 254,279 | 294,200 | 100 |

| | Description | Use | Lease | Gross Floor Area *(sq.ft.)* | Covered Floor Area *(sq.ft.)* | Percentage interest attributable to Regal REIT |
|---|---|---|---|---|---|---|
| (5) | Regal Riverside Hotel<br>34-36 Tai Chung Kiu Road<br>Shatin, New Territories<br>Hong Kong | Hotel | Medium term | 642,263 | 743,500 | 100 |
| (6) | Regal iClub Building<br>Shops A, B and C on<br>G/F, Flat Roof on 3/F,<br>Whole of 5-12/F,<br>15-23/F and 25-29/F<br>Eastern and Western<br>Elevations of External Walls<br>Architectural Feature at<br>Roof Top and Upper Roof<br>211 Johnston Road<br>Wanchai<br>Hong Kong | Hotel/<br>office/<br>commercial | Long term | 58,196 | 59,600 | 75 |

# 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, 2009 HK$'000** | Year ended 31st December, 2008 HK$'000 | Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK$'000 (Note 1) |
|---|---|---|---|
| Gross rental revenue | **763,408** | 761,963 | 672,787 |
| Net rental income | **754,004** | 750,039 | 665,682 |
| Profit/(loss) before tax and distributions to Unitholders | **777,348** | (2,684,941) | 3,090,762 |
| Profit/(loss) for the year/period, before distributions to Unitholders | **626,804** | (2,150,171) | 2,850,198 |
| Distributable income for the year/period attributable to Unitholders | **558,166** | 501,930 | 421,486 |
| Total distributions per Unit | **HK$0.170** | HK$0.16761 | HK$0.15327 |

## Summary of the assets and liabilities

| | **2009 HK$'000** | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investment properties | **14,290,000** | 13,020,000 | 16,080,000 |
| Prepaid construction costs | **—** | 430,000 | 430,000 |
| Other non-current assets | **70,373** | 133,198 | 21,765 |
| Current assets | **203,480** | 332,940 | 401,914 |
| Total assets | **14,563,853** | 13,916,138 | 16,933,679 |
| Current liabilities | **73,875** | 64,257 | 62,314 |
| Non-current liabilities | **6,165,308** | 5,695,104 | 5,956,289 |
| Total liabilities | **6,239,183** | 5,759,361 | 6,018,603 |
| Minority interest | **15,939** | — | — |
| Net assets attributable to Unitholders | **8,308,731** | 8,156,777 | 10,915,076 |
| Net asset value per Unit attributable to Unitholders | **HK$2.593** | HK$2.596 | HK$3.503 |

Note:

1 Regal REIT's business operations and trading in Regal REIT Units commenced from 30th March, 2007, the date when the Units of Regal REIT were listed on the Stock Exchange. Therefore, the comparative amounts are in respect of the period from 30th March, 2007 to 31st December, 2007.